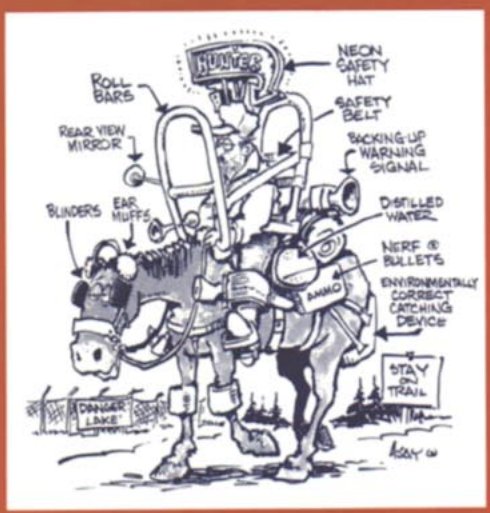
THE FREEMAN

IDEAS ON LIBERTY



Decorating the Wilderness

How to Be an Individual

The Case for Being Insensitive

Government's Assault on Freedom to Work

SEPTEMBER 1991

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THE FOUNDATION FOR ECONOMIC EDUCATION, INC. Irvington-on-Hudson, New York 10533

1991-92 Essay Contest

THE MARKET AND MOTHER NATURE:

Responses of a Free Society to Environmental Concerns

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PERSPECTIVE

On Moving the World

Every so often, an event occurs that stands as a monument to the continuing struggle for human freedom and serves as a reminder to all who work for liberty that even when success seems farthest from reach, they can make a difference. Whether it is the Boston Tea Party, the storming of the Bastille, the Warsaw Ghetto uprising, or the assault on the Berlin Wall, such events are a vivid reminder that man has an undying desire to be free.

Of all these, however, there is one event that will stand alone as the simplest and yet most profound reminder not only of the universal desire for liberty but also of the power of a single individual. This event occurred on June 5, 1989, one day after the Chinese government massacred thousands of its own citizens in Tiananmen Square. As a column of tanks rolled down the ironically named Boulevard of Heavenly Peace, a lone man ran into the middle of the street and stood in front of the lead tank, preventing the entire column from moving. For one brief moment, the age-old historical struggle between the individual and the state was crystallized into the image of this one man standing perfectly erect, staring straight ahead, with the gun turret of a tank pointed at him. It is said that the quest for freedom is the struggle between the armed state with its ultimate resort to the power of a gun and the individual with often nothing more than his principles to defend him. Never before has one event so perfectly represented this struggle before the world, and never before has the power of principle and the impotence of force been more perfectly communicated.

To those who fight the daily battle for liberty on even the smallest, most inconspicuous, and sometimes apparently the most meaningless level, the actions of this man in Beijing should serve as an inspiration and a reminder that, though a single individual may seem powerless to change anything, the greatest success must always begin with someone who is willing to stand up and fight for what he believes. Where, after all, would the world be today were it not for the first American patriot who resisted British rule, the first Frenchman who stood up against the ancien régime, the

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first person who refused to comply with the Nazis' plan to murder every Jew in Europe, or the first East European who demanded his freedom in the worst days of Communist tyranny?

At the time, it may have seemed to all of these people that they were engaged in a hopeless exercise, that the resistance of one man is nothing compared with the military and political power of a state. They acted not because they knew that they would win, for victory was far from certain, and not as part of a mass struggle against tyranny, for they were, at least initially, quite alone. They acted because they knew they were right, because they wanted to be free, and because they hoped that by taking a stand they would inspire others to do the same. History, of course, proved them correct in the long run—acting alone they not only inspired others but eventually proved victorious. The undeniable lesson of history is this: One person, backed only by the strength of his convictions, can make a difference; one man can change the world.

—Douglas Mataconis
George Mason University School of Law

Balance of Trade

Imagine applying mercantilism to our everyday economic affairs. When our employer gave us our weekly paycheck, we would have to say that this was a favorable balance of trade since it ended up with us having more money at our disposal. On the other hand, we would have to speak of being victimized by an unfavorable balance of trade when we shopped at the supermarket. This is because money left our hands and went to the grocer. But anyone who has ever shopped realizes that gains are made by such activities. Who would patronize the local supermarket unless what they get is worth more to them than what they pay for it?

It is the same with nations. If we buy more this month from Japan than we sell to them, this doesn't mean we are exploited by them any more than grocery stores victimize us when we shop there. More to the point, the purpose of trade is to import—just as the purpose of working is to be able to afford to buy or import the groceries. So the next time you hear that we have a negative balance in merchandise trade, remember that means we are consuming more goods and services provided by foreigners than they are getting from us.

—Walter Block, writing for
The Fraser Institute
Vancouver, Canada

"No Problem"

"You want to go para-sailing?" the pilot of the snorkeling boat asked as we pulled ashore near Montego Bay. "No problem."

And there was no problem. He hailed a cab, the driver took us a few miles down the sandy Jamaican beach, we paid cash, signed a one-paragraph release, and we were up in the air. It was as simple as that.

It's about the same if you want to take your first scuba dive in Aruba. You sign a release, they sit you down to explain the basics, you practice in a pool, and an hour later you are diving off the side of a boat. Again, "No problem."

Unfortunately, it isn't so easy if you want to take some risks in the United States. If you can even find someone to take you scuba diving, para-sailing, mountain climbing, or whatever, the release forms are a lot longer than a paragraph or two, and the basic message is: "Don't sue me."

Americans have always been risk-takers. But if we have to go overseas to take our chances, that says a lot about our future as a people and as a nation.

—Brian Summers

Mises' Last Word

Whatever reversals lie ahead, the day when professors of Marxism could make the case for their man over the market is over. The Austrian economist Ludwig von Mises had the last word back in 1947, when the Red Army was imposing central planning from the Baltic to the Mediterranean and socialists everywhere were dreaming that they had the key to a better world: "A socialist management of production . . . will squander the scarce factors of production, both material and human. Chaos and poverty for all will unavoidably result."

—Rob Norton, writing in
the January 14, 1991, issue of *Fortune*

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Rethinking the Free Rider Problem

by James L. Payne

On the Bottle Bay Road, in North Idaho's Bonner County, they've confounded the professors. In the academic world, voluntarism is generally considered a hopeless way of approaching public problems. The reason is "free riders": in a voluntary system of donating to a worthy project, people can get the benefit of the project without having to pay for it. Therefore—the theory goes—everyone will be selfish and wait for others to give, and nothing will get done. No, say the academics, the only way to accomplish public projects is to use government and its tax system to force everyone to contribute.

Fortunately, Marla Wentner, Bill Bowman, and their neighbors on the Bottle Bay Road didn't believe this theory. The 5.2-mile stretch of road by their property was unpaved, and likely to remain so for many years. Its washboards were a safety hazard, and its dust polluted the air and nearby Lake Pend Oreille. "We finally just got fed up," said Bill.

Marla and Bill formed a committee to raise money on a voluntary basis to pay for paving this stretch. From county records, Marla hunted up the names of 408 property owners affected by the road. Through extensive telephoning and mailings (they sent out over 1,000 pieces of mail), the committee persuaded some 120 property owners to contribute. The basic contribution was set at $300. Some people were willing to give more. Some could afford only $50. The small contributors impressed Marla: "You knew they were doing their best." After months of campaigning, the committee reached its goal of $50,000, the amount the gravel/chip seal coat will cost (the county will handle preparation of the road bed).

Who were the noncontributors? Some were opposed in principle to paving the road, because that would lead to more traffic and development. In other cases, people really couldn't afford anything. And then there were absentee owners who couldn't be reached. But there were free riders too, and that did bother the volunteers. "It's a little disturbing when there are people who want the paving, and can pay, but don't," said Marla. "But you just have to get past that."

So the theory is wrong. Yes, there are free riders in a voluntary situation, but what the academics overlook is that there are also public-spirited people, and their generosity can more than make up for the selfishness of free riders. That's why voluntarism can work. And, of course, it does work on this basis, all around the nation. Tens of thousands of voluntary groups, from churches to Boy Scouts, operate in circumstances where free-riding can take place, but this doesn't prevent them from operating successfully.

James L. Payne is a political scientist who lives in Sandpoint, Idaho. This article is adapted from his column "The Volunteer Beat," which appears in the Bonner County Daily Bee.

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COURTESY OF JAMES L. PAYNE

Marla Wentner on the Bottle Bay Road.

Encouraging Voluntary Action

The Bottle Bay project illustrates another point: voluntary problem-solving is stronger when government is weaker. The Bottle Bay group first went to the county government, but were told there were no funds available for their road. At first glance, a tax-weak county government may seem unfortunate, but look at the benefit: it encourages voluntary action.

Voluntary assistance with roads is not uncommon in Bonner County. The Bottle Bay project has involved the largest number of property owners, but similar deals have been worked out for a number of other roads. The county's lack of cash has impelled people to come forth with voluntary self-help arrangements. What is true for roads applies to everything else, from soup kitchens to youth organizations: if you want voluntarism, starve government.

It's time academia recognized that there are two systems for handling our public problems. One is government, which relies on the coercion of the tax system. The other is voluntarism, the method that renounces force and relies on persuasion and generosity. Instead of inventing misleading theories for why voluntarism can't work and why we must turn to government, scholars should be figuring out how to make voluntarism, which obviously does work, work better. □

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Decorating the Wilderness

by John T. Wenders

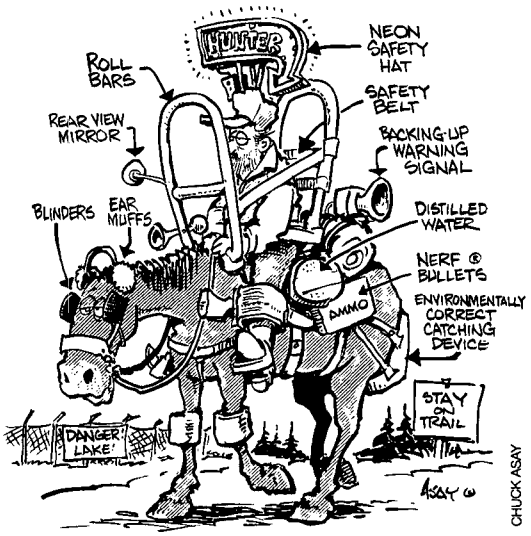
A few years ago, on the last weekend of elk season, Ashley Lyman and I were trailering our horses up a snow-covered Forest Service road out of Elk City, Idaho. As we climbed across a steep clear-cut, the truck spun to a halt on a sheet of ice. Then slowly the whole rig began to jackknife backward toward a precipice. Ashley raced all four wheels. I jumped out of the truck, opened the rear of the trailer, and began unloading frightened horses. By the time the trailer emptied I had been kicked once, stepped on twice, knocked down, and squeezed against the side of the trailer as Brutus turned and bolted out. But getting the horses out of the trailer kept us from sliding over the edge.

On other occasions I have fallen in icy streams in below-zero weather, had nightfall overtake me far from camp in a snowstorm, been left stranded far from camp when my horse escaped, and been dumped by a grizzly-frightened horse.

I do not plan these little adventures, still they do occur, and will probably occur again. But these are some of the risks I accept when hunting. Compared to these, the risk of getting shot is the least of my worries.

Now come various game and fish departments, hunter education associations, and legislators. They say that I should not be allowed to accept some hunting risks. To protect me from myself, I must be required to sally forth in glowing orange, probably with a neon propeller on my hat, so that irresponsible hunters won't shoot me.

When not hunting, John T. Wenders is Professor of Economics at the University of Idaho.



I can see it now: road checks to make sure I don't pull my horse trailer up any snowy roads; all water posted in several languages and fenced in the winter so I won't fall in; a required siren at camp that goes off at sundown to guide me back; government-regulated strength standards for all lead ropes, halters, and knots. And all grizzlies belled. Think of how safe the wilderness will be!

No thank you. I know what's best for me. One of the reasons I hunt is to get away from the trappings of civilization, and I will accept all the risks. Further, I'll do others the favor of presuming that they know what's best for them: as much as I hate to see the wilderness decorated, I will support their right to wear macho hunter orange. I only ask in return that they support my right to accept the risks of not doing so. □

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The Individual and the Community

by Tibor R. Machan

There always has been something of a puzzle in social and political philosophy as to how much a political system should prize individuals and how much it should stress the prominence of the community. The question is about as ancient a theme in this discipline as are questions of the one and the many in metaphysics and stability versus change in our ideas in epistemology.

And no wonder. Human beings are, in a very straightforward sense, unique individuals as well as members of a distinct species, a community. How much emphasis should be placed on each aspect of their nature when we consider the constitution of a society?

Throughout history we have seen grand schemes that have favored the community as against the individual, in line with the idea Karl Marx put before us, that "the human essence is the true collectivity of man." But Marx didn't originate collectivist trends. In the West, Plato was perhaps most responsible for emphasizing the collective nature of human life. He first imagined that there are two worlds. One, where we live our particular, individual lives, is imperfect, unstable, changing, and easily corrupted. The other is the perfect, timeless, and unchanging realm that is home to the true nature of everything—including human nature or humanity!

Here we see the beginning of the idea that humankind is more important than individual human beings, if only because it can be conceived of as perfect, unchanging, and incorruptible. Plato may have advanced this picture simply to stress the need to define things clearly and precisely, analogous to what we do in geometry. But his views did leave many with the understanding that in fact there exists a humanity *apart from the individuals who comprise it.* And it also left the clear impression that humanity is more important—perfect—than individuals.

Indeed, as Professor Stephen Tonsor has argued, collectivism has more of a conservative than a radical pedigree in intellectual history.[1] This is easy enough to appreciate. After all, conservatives stress the importance of the tried and true opinions of the past, backed by millions of people who have gone before us. It is their collective thinking that must be deferred to instead of our individual reflections.

Failed Collectivist "Experiments"

There have been philosophical objections to all this, and, of course, in our own time we have seen the demise of many collectivist political "experiments." Fascism, Nazism, socialism, and Communism are now largely discredited. And one of the central faults in all of them is their belittling of the human individual.

The most recent case that points this up is the demise of socialism in Eastern Europe. First there is the economic mess in its wake: when collective needs rather than individual choices are used as guidelines for economic public policy, productivity sags, distribution is inefficient, people go hungry, and eventually the entire region suffers impoverishment. Second, though not necessarily in importance, is the demoralizing effect of collectivism: people aren't encouraged to see themselves as

Professor Machan teaches philosophy at Auburn University, Alabama.

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individually responsible for their conduct, so a kind of moral tragedy of the commons—that is, confusion about who is responsible for what—ensues. What one person does is really everyone's doing—no achievement or any failure can individually be assigned because the big "we" does it all.[2] Third, it is evident that wars are far more likely when collectivist ideologies reign than when individualism is prevalent. "War is the health of the state," it has been said.

Now we have solid historical evidence for what previously was understood by quite a few unheeded people—that massive coercive collectivist efforts are anti-human. So do we now notice that great numbers of the intellectual community are beginning to pay closer attention to individualism? Not if by this one would expect efforts to clarify it, improve its various arguments and analyses, fine-tune its tenets.

Instead, a new collectivist movement has begun to make its way into Western culture. It is called "communitarianism." Its major tenets are not all that different from the other collectivist systems, despite a more moderate tone and some lip service to individual rights. Here, in brief, is what one organization trying to promulgate communitarianism is saying: "To the ACLU, libertarians, and other radical individualists, we say that the rights of individuals must be balanced with responsibilities to the community. Individuals are members of a community; neither their existence nor their liberty can be sustained without community."

The claim advanced, in short, is that the individualist political ideal that stresses basic human rights to life, liberty, and property needs to be balanced with the competing ideal stressing the higher value of the community at large. What is the point?

We all know we have responsibilities toward our community—to wit, our parents, children, cousins, neighbors, colleagues, and people around us who may need our support, encouragement, and direct help in a pinch. Individualism by no means implies neglecting other people who comprise one's community. There are very definite moral responsibilities each of us has toward such other persons.

Our human nature makes us not only unique individuals but also social beings. Aristotle, who severely criticized Plato's limited communism, did not deny that human beings are essentially social—he made a point of stressing it. Our rationality enables us to communicate and cooperate with, as well as to learn from, understand, and love others. And our goal of leading a happy life, one that realizes our human potentialities, requires us to fulfill these abilities.

All in all, the point of the communitarian movement is not to remind us to be morally responsible to other people—to respect them, cooperate with them, love them when that is warranted, and so forth. Nothing in individualism rejects these ideas and ideals. Communitarianism would be benign enough if it meant no more than to remind us of our moral ties to others.

Forcing Service

In fact it means something different. We are being urged to support the enactment of laws that *force* people to serve their communities—to participate in programs that some people have designated as community purposes or in the public interest. Otherwise there wouldn't be all this concern with individualism expressed by advocates of communitarianism. Communitarians are interested in diminishing the decision-making power of people as individuals. Yet, it is just such power that is required for a morally responsible life, including one that does full justice to our moral responsibilities to others.

Although communitarianism seems benign, consider one of its hidden problems. We know who can speak for the individual, at least when he or she reaches adulthood. This is the individual himself or herself, no one else. We know well enough who is responsible for the individual—once again, the person who is that individual, no one else.

But who speaks for the community? Is it going to be Ralph Nader? Or will it be George Bush, or some committee such as Congress? The trouble with talking about "the community" in a literal fashion as communitarianism does is that a community isn't some concrete thing whose welfare we can determine and promote. Rather communities are collections of individual human beings with innumerable projects—legitimate needs, wants, objectives—of their own and with only a few shared among themselves.

That is one practical reason why collectivism is unworkable and why communitarians would spend their time more fruitfully in thinking about

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"No one is morally improved by being forced to be responsible. Indeed, such force simply robs a person of his or her moral nature."

individualism and its nuances than in resurrecting collectivism in yet another form.

Another way communitarianism misleads is by claiming that Western, and especially American, culture is truly individualistic. Although American culture is more so than many others, in fact it is by no means radically so.

First, the West is infused with collectivism, and the revolution that changed this has been by no means fully embraced by all segments of society. Second, even the individualistic elements of the West aren't of the extreme or radical type a few thinkers, such as Thomas Hobbes and Max Stirner, have put forward. That rare version implies that each person be treated as an entirely unique being, with no traits or concerns he or she shares with others.

Rather, America's individualist tradition tends to acknowledge from the very start that we are all *human* individuals. The Declaration of Independence refers to us all when it notes that we take it as self-evident that each has the rights to life, liberty, and the pursuit of happiness. We do share in our humanity, and that is why we need to treat one another with respect for these rights. We are human individuals with human rights that, if respected, will enable us to live a human life of moral choice and responsibility.

Communitarians wish to place community and individual on a collision course, saying there is some kind of balance that is needed between the rights of individuals and the rights of the community. But if we consider that "community" means simply a lot of other people than oneself, this makes for majority rule. And if we consider that such other people usually leave it to a few who will speak out in their behalf, we will have a few community representatives dictating to the rest of us what we must do and what our "responsibilities" are.

Moreover, our moral responsibilities are distorted the moment they are made the object of law. A legally enforced moral responsibility isn't freely carried out by a person but amounts to regimented personal conduct. No moral credit can be gained in that fashion. No one is morally improved by being forced to be responsible. Indeed, such force simply robs a person of his or her moral nature.

Our communities are highly varied, depending on who we are and many other factors. Our community responsibilities are equally varied—I have some you don't and vice versa. They cannot be codified—and heaven help us if some group elects itself as the codifier of them.

We should be concerned about efforts to foist communitarianism upon us. Of course, we can use occasional reminders of what we owe our family, friends, colleagues, neighbors, and others. But the unified, organic community is a myth. Instead of fashioning a new collectivism, let us preserve and restore the system of individualism in which we all have to go our own way to seek support for our objectives and cannot conscript others to work with us against their will. □

1. Stephen J. Tonsor, "The Conservative Origins of Collectivism," in Robert L. Cunningham, editor, *Liberty and the Rule of Law* (College Station, Texas: Texas A&M University Press, 1979), pp. 224-41.

2. Ayn Rand highlighted this about collectivism in her wonderful novelette *Anthem*, in which a collectivist world is bleak, morose, unimaginative, and stagnant. It is interesting that George Orwell's similar novel, *1984*, contains a major misunderstanding when it permits technology to flourish in the midst of collectivism. Rand had it right—the creative human spirit having been suppressed, nothing flourishes that depends on it, including technology.

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The Trouble with Education

by William J. McNicoll

The Clear Creek Independent School District (CCISD) is a public school system in Texas encompassing all or part of a dozen cities and towns, including a portion of southeast Houston. The quality of its programs places it in the upper tier of school systems in Texas. In fact, CCISD was cited in 1988 as the best public school district in Texas.

Each January, CCISD conducts an election to fill two or three seats on its seven-member board of trustees. This year's election attracted much more attention than usual because of a simultaneous effort by a local taxpayer group to roll back the district's tax rate, which the board had recently increased by 20 percent. The rollback issue, in fact, dominated the campaign. It prompted virtually every one of the nine candidates for the board to promise, in one way or another, to "maximize the efficient use of tax dollars." None of the candidates was very specific about how to achieve this. Given the way public schools operate, a discussion of whether tax dollars can be used efficiently is appropriate.

The concept of maximizing the efficient use of resources puts us in the realm of economics. To decide whether the promise can be kept we need only go back to Economics 101. The fundamental and simple ideas we studied there are more than adequate to reach a conclusion.

Mr. McNicoll is an aerospace engineer in Houston.

Scarce Resources, Opportunity Cost

On the first day of class we learned that resources are scarce. That seems very simple, but it has important implications.

Resources must be consumed to produce the goods and services we all want. Resources are obviously finite. The earth has only so much mineral resource. There is only so much time and human labor available. Individuals have only a finite amount of money to spend to satisfy their needs, wants, and desires. The fundamental problem of economics is that while resources are scarce, human wants, needs, and desires have no limits. We can't have everything we want; we have to choose. We must forgo some desires in favor of others.

That leads directly to the next basic concept in economics: opportunity cost. Opportunity cost is the cost of choosing one alternative over another. It is the benefit forgone when we make a choice.

For example, if you have $50 to spend and want either to go to a baseball game or out to a fancy

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restaurant, you must make a choice. You can't do both. If you choose to go to dinner, your opportunity cost is whatever benefit you might have gained by going to the ball game.

This idea of opportunity cost helps to explain how we make choices. We act to minimize our opportunity costs, or to maximize our benefits by the choices we make. In this way we strive to achieve the greatest benefits from consuming scarce resources.

Economic Demand, Efficiency

Another important concept is economic demand. Each of us wants to derive as much personal benefit as possible from our scarce resources. But we can't satisfy all our wants and desires. Economic demand is our expression of what we have chosen to do with our scarce resources. Economic demand is not just wants and desires, but also the ability and willingness to pay for what we have chosen. I may want a new Mercedes, but I'm not willing to expend the required portion of my scarce resources to obtain one. I am expressing no economic demand for a Mercedes.

It's important to remember that people express their economic demand only when they are actually faced with the decision of how to make use of their resources. Economic demand cannot be accurately measured by taking surveys or talking to people. Almost invariably, people will respond to questions with wants and desires, not economic demand.

The concept of efficiency bears directly on the school board candidates' promise. We usually think of efficiency as some process that maximizes output of a finished product with a minimum of inputs or costs. That is perfectly valid, but there is another aspect of efficiency that concerns the value of the finished product, which is determined by the level of economic demand for it. If there is no economic demand for a product, then it lacks value, and the efforts to minimize the resources consumed in producing it are irrelevant. The resources are wasted when the decision is made to enter them into this process.

An example might be a solar-powered flashlight. (Guaranteed to meet all your daytime flashlight needs!) The product has no value because no consumer expresses an economic demand for it at any price. The production process is immaterial; the resources that went into this product were wasted.

Producers and Consumers

We cooperate with each other to derive maximum benefit from the resources we consume. A business is an organization that produces goods and services for other organizations or individuals.

Businesses are run by people who want to benefit just like the rest of us. They do that by providing products to consumers, but they concentrate on providing only those products for which there is a genuine economic demand. Of course they can confirm what is in demand only by observing consumers and the decisions they make. Consumers make their decisions based on quality, price, and opportunity cost. This is how consumers reveal their economic demand for goods and services and maximize their benefits.

Those who are successful at supplying whatever is in economic demand in an efficient manner will be rewarded with profits. That's all profit is, a reward for meeting the economic demands of consumers. A large profit suggests that you are doing a very good job of meeting consumer demand without wasting resources.

On the other hand, a business that loses money is doing so because it isn't doing a good job of meeting consumer demand. It is producing a product for which there is little demand, or it is producing it so inefficiently that the cost exceeds the market price. In either case, the losses it suffers encourage the business to stop producing that product and stop wasting resources.

But even a profitable business situation can come to a swift end if somebody else comes along and provides an equivalent product at a lower price, or a better product at the same price, thereby allowing customers to satisfy their demand while consuming fewer resources.

This interchange between consumers and producers (and we all are both) is a communication system. In it, information is carried by prices. Prices are determined by the economic demand for goods and their relative supply. Profits and losses show whether resources are being used efficiently. This communication system leads to the satisfaction of economic demand in the most efficient way possible, meaning that the fewest resources will be consumed.

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Public Schools

Now consider the particular case of public schools and whether we can maximize the efficient use of taxpayer dollars.

Public schools are fundamentally different from businesses. The biggest difference is that the communication system just described doesn't exist! It doesn't exist because it isn't allowed to exist. Instead, public schools are financed by taxation. Money is simply taken from people without regard to economic demand or opportunity cost.

There is, however, a non-economic communication system between the education consumer and the provider. Unfortunately it's not a very good system. Information on the best use of resources is incomplete and garbled as if by static. Some needed information doesn't get through at all. Since it doesn't operate by consumers making choices, this communication system cannot carry information on economic demand or quality or on how resources should be allocated to maximize benefits. It can carry only wants and desires.

Furthermore, it doesn't carry information from all customers for the product, as the communication system for private businesses does. For this is a political system. A businessman needs to listen to all his customers if he wants to be rewarded with profits. The people in charge of the public school system (politicians, not businessmen) can survive quite nicely by listening only to those people they choose to hear. Some people, no matter how hard they try, won't be able to communicate over this system. Complaints that special interests are met while the general interest suffers are valid. It is in the nature of the system.

To stay in office, school board members have to be re-elected periodically. They make promises to achieve their re-election, and making good on these promises costs money. Those people with influence over the board members can get their wants and desires (but not their economic demand) granted this way. The result is a parade of new programs and services that are of dubious value, but carry a very real cost.

Another difference between public schools and private businesses is competition. Because public schools deliver their product at no direct cost to the consumer, any competition is at a severe disadvantage. Few consumers are willing to pay both school taxes and private school tuition. The kinds of improvements in quality that arise through business competition are almost nonexistent in public schools.

The result in our system of public schools should be easily predictable. Since no information on economic demand is available, it is inevitable that services will be provided for which there is little or no economic demand. This is a major cause of waste in the public school system. Costs continue to rise at alarming rates because of the effort to satisfy a wide array of wants and desires, without any process to reduce those wants and desires to genuine economic demand. They're making solar-powered flashlights, but get no market signals to stop.

Can the candidates' promise be kept? Clearly not. Under the present system, it isn't possible to "maximize the efficient use of tax dollars." In fact, no system can maximize efficient use of tax dollars. Consumer dollars come with an indication of their most efficient use. Tax dollars do not.

To solve a problem, we must first understand its cause. We have recognized a serious problem in education throughout this country, yet no significant progress has been made toward solving it. I believe this is because so few people understand the source of the problem. (Some don't even want to understand.) The greatest part of that problem is explained by this simple economic assessment. From a sound understanding of these difficulties, it should be a simple matter to proceed to a solution. Achieving that understanding is the hard part.

As for the CCISD election, the available seats were won by two gentlemen who opposed the tax rollback effort and believed that the education problem is caused by inadequate funding. Two months later, the tax rollback succeeded. □

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The Case for Being Insensitive

by William B. Irvine

At the university where I teach there recently was an uproar when a white dean allegedly said that a black faculty member is paid as much as he is because he is black. Although the dean ultimately was cleared of the charge of racism by a university committee, there were those who nevertheless held him to be guilty of the lesser crime of "insensitivity."

This charge of insensitivity has been thrown around quite a bit in the last few years. Indeed, it is one of the main tools used by those who seek to impose "Politically Correct" thinking on America's college campuses and elsewhere.

It is curious that Americans, who with each passing year become less concerned about good manners and etiquette, become ever more concerned with sensitivity in speech. It is okay to be a slob at the dinner table. It is okay to go out in public half dressed. It is even okay—some would have us believe—to use four-letter words in mixed company. But never, never say something political that will hurt the feelings of another human being.

Racist and sexist remarks certainly are morally offensive. But what about remarks that are merely insensitive? Should the members of a free society attempt to suppress these remarks or condemn those who make them? Before we can answer these questions, we must first inquire into exactly what sorts of remarks, in today's political climate, count as insensitive.

To be guilty of insensitivity, you must first say something that hurts someone's feelings. If people don't mind what you say, you are a sensitive individual; and if what you say makes people feel good about themselves, you will count as a wonderfully sensitive individual.

But hurting someone's feelings alone won't make you guilty of insensitivity, for it matters whose feelings you hurt. If, for example, the above-described dean had announced that *his* feelings had been hurt by being accused of racism, no one would have rushed to charge his accusers of insensitivity.

As it turns out, for a remark to count as insensitive, the person whose feelings get hurt must belong to a "protected" group. Some of these groups are defined by their minority status. For example, it is insensitive to hurt the feelings of a black or a female. (On the other hand, people with Scottish-sounding surnames are in a minority group, but not a protected minority group; it is therefore not, in today's political climate, considered insensitive to say things that hurt their feelings.) Other protected groups are defined by lifestyle. For instance, it is insensitive—as Andy Rooney of *60 Minutes* fame found out—to hurt the feelings of homosexuals, since homosexuality is a protected lifestyle. No one will charge you with insensitivity, however, if you attack the heterosexual proclivities of bachelors; their lifestyle isn't protected.

One other thing to realize about the charge of insensitivity is that remarks need not be false to count as insensitive. Indeed, most of the remarks that get labeled insensitive are arguably true. (The dean's remark, for example, that the black faculty member gets paid as much as he does because he is black might well be true. Indeed, given the chaotic state of affirmative action in America, it is possible that the black faculty member wouldn't even have been interviewed for his job if he hadn't

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WASHINGTON POST WRITERS GROUP

been black.) Generally, people accuse someone of being insensitive only when they are unable to convict him of the more serious charge of being wrong.

Thus, it would appear that when someone accuses someone else of making an insensitive remark, what he is really doing is accusing someone of making an arguably true remark that members of a certain protected group don't care to hear.

Why do people accuse others of insensitivity? No doubt because they have found that it is an effective way to intimidate their critics into silence—much the same way that in the 1950s Senator Joseph McCarthy intimidated many of his critics into silence by labeling them Communists. Notice, too, that it is far easier to prove that someone is insensitive than to prove that he is mistaken; for to prove insensitivity, all you have to do (if you are in a protected group) is announce that your feelings have been hurt.

Is it, then, wrong to make insensitive remarks? Not if we value the truth.

The charge of insensitivity, if Americans take it seriously, threatens to undermine our freedom of speech. For if we concern ourselves with the sensitivity of what we say, we bring into existence a multitude of censors—namely, ourselves. Before we open our mouths, our concern will not be, "Is what I am about to say true?" but instead, "Do people want to hear what I am about to say?" Of course, what makes freedom of speech valuable is that it protects our right to say things that people don't want to hear. Our right to say things that people *do* want to hear will never be in danger.

When discussing the issues of the day, we should not worry about being "insensitive." Conversely, when someone says something political that hurts *our* feelings, we should stop and ask ourselves whether his criticism is valid. If it is, he probably has done us a favor in speaking. And if it is not, we shouldn't sit there whimpering about the critic's insensitivity; instead we should defend ourselves by vigorously demonstrating to him why he is wrong. We will both be better for the experience. □

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Government's Assault on Freedom to Work

by Thomas J. DiLorenzo

This essay suggests ways of thinking about one of the most important economic freedoms—the freedom to earn a living. Economic freedom may be defined generally as the freedom to trade or to engage in any consensual economic activity.[1] In the context of the labor market, economic freedom means the freedom of an employee or a group of employees to "trade" labor services in return for remuneration.

Since free trade in the labor market is mutually advantageous, it benefits both parties. Moreover, labor market freedom entails many other freedoms, such as freedom of contract, of choice, and of association. To maximize their own well-being, workers and employers must be free to contract with whomever they want, to associate with whomever they want, and to have as wide a choice of labor market options as possible, so long as they don't interfere with the equal rights of others. Thus, an unregulated labor market is most conducive to individual workers' (and employers') pursuit of happiness and economic well-being as they subjectively value it.

Government can play two different roles regarding the labor market. One role is to serve as a "referee" by enforcing voluntary contracts, protecting private property rights, and generally maintaining the rule of law. Government, in other words, can enforce the rules of the game without directly determining the outcome.

The second role of government is to make rules that determine the outcome by passing legislation and issuing regulations that affect wages, working conditions, and other aspects of labor markets. This second role is the predominant objective of governmental labor policy in democratic countries, and it conflicts with the objective of economic freedom. Rather than protecting private contracts and private property, government all too often attenuates the rights of both individual workers and employers.

The reason governments do a poor job of protecting these rights is the basic asymmetry in political decision-making in democratic countries. Generally speaking, governments pass legislation to benefit relatively small, well-organized, and well-financed interest groups. The costs of the legislation are usually hidden and widely dispersed among the general public. To promise voters well-defined and exaggerated benefits, and to hide the costs, is the route to a successful political career.

Thus, labor legislation is typically (but not always) intended to improve the economic well-being of one group by diminishing another's. Such laws infringe on the economic liberties of individuals and groups that are less politically effective.[2] Most labor legislation, in other words, amounts to protectionism—it tries to protect the jobs and incomes of one group of employees by restricting the opportunities of others. Like protectionist trade policies, such laws tend to impoverish an entire nation while providing benefits to a relatively small, politically active minority.

The types of legislation (and their economic effects) to be discussed are: 1) union legislation, 2) domestic labor legislation, and 3) immigration

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legislation. Given that there are literally thousands of labor laws and regulations, the following analysis is at best a preliminary assessment of economic freedom in the labor market. Only the most severe labor market interventions are considered.

Although preliminary, such an analysis is important because labor market freedom is arguably the most important economic freedom of all. Without the freedom to earn a living, citizens are bound to become ever more subservient to the state.

I. Union Legislation

Much labor legislation deals with the relationships between unions and employers. From the perspective of economic freedom—especially freedom of association—there is nothing particularly objectionable about "combinations of labor" any more than there is about any other combination of individuals for whatever purpose, so long as the group does not interfere with the equal rights of others. A government that respects economic freedom will not restrict the rights of individuals to associate freely with one another, nor will it restrict the rights of individuals who choose *not* to be associated with any such groups.

Labor law in democratic countries contains much rhetoric about protecting freedom of association, but in reality it does a poor job of it. Governments interfere or meddle with private contractual relationships between workers (or their unions) and employers on a massive scale. Most union legislation attempts to replace private, voluntary labor contracts and agreements with governmental edicts. In essence, it socializes labor relations. Furthermore, much legislation confers special privileges on labor *unions* often to the detriment of individual workers and employers.

Compulsory Unionism. One example of such legislation is laws that encourage or even mandate unionization. In the United States, for example, labor legislation discusses the importance of freedom of association, but then it talks of such freedom in terms of freedoms "to form, join, or assist labor *organizations*"[3] for the purpose of *collective* bargaining. Many of the employee "rights" protected by U.S. labor law are ones that can be advanced only through unionization.

Thus, an important measure of labor market freedom is the degree to which labor law protects *individual workers* rather than unions as organizations. Since the interests of individual workers are quite often in conflict with the interests of union officials, a legal framework that encourages or mandates unionization diminishes individual economic freedom. Laws that mandate collective bargaining, for example, are a restriction of workers' (and employers') freedom. A worker may prefer to bargain individually, and an employer may prefer to ignore a union.

The benefits of individual, rather than collective, bargaining are clear. Research in labor economics has shown that collective bargaining tends to reduce the dispersion of wages. More specifically, more productive workers are usually paid less than they could have earned had they bargained individually, whereas less productive workers often earn more, as union wages are set at something close to the median wage within a bargaining unit. Thus, if collective bargaining *imposes* an outcome on all employees, it is bound to make some of them—usually the most productive ones—worse off.

Despite the fact that some workers are made worse off, it is illegal for workers in a unionized industry in the United States and many other countries to bargain individually. Such bargaining is deemed an "unfair labor practice" and is a punishable offense.

Yellow-Dog Contracts. With regard to employers' rights, it is illegal in many countries for an employer to refuse to bargain with a union. In the United States it is a per se violation of the National Labor Relations Act to refuse to bargain with a union, but it is not illegal for a union to refuse to bargain with an employer. So-called "yellow-dog" contracts—agreements between employers and employees not to have a union—have been illegal in the United States and many other countries for decades.

Labor historians have found that one of the reasons for such contracts (which, it is worth stressing, were voluntary) was the desire by *workers* to avoid the work disruptions and loss of wages during strikes that characterize unionized industries.[4] Moreover, since such agreements were voluntary, they must have benefited employers *and* employees, just as all voluntary free market agreements do. Either party was free to end the employment relationship "at will" if dissatisfied.

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The only way that such agreements could persist in a free marketplace is if they were "efficient" in the sense that they enhanced the welfare of both parties—the anti-union employees and employers who must have believed that unionization would not be in their best interest. Thus, legislation that outlaws such contracts must necessarily make some workers and employers worse off.

Exclusivity. Another aspect of labor legislation that grants special privileges to unions at the expense of economic freedom for workers is so-called exclusive representation. Exclusivity gives a union, once it has been certified, the legal right to be the *exclusive* bargaining agent for all workers in a bargaining unit, whether they wish to be represented or not. Any attempt by employers or workers to bargain individually—even over the most mundane things—is illegal.

Exclusivity gives unions a legal monopoly in the employee representation business. It not only is illegal for workers to bargain individually with their employers; exclusive representation legislation also prohibits bargaining through another, competing union, or any other agent.[5]

Protected from competition by exclusive representation laws, unions act like all other monopolists: they restrict their "output" and raise their prices. Because unions face no competition in the employee representation business, they are less constrained than they otherwise would be from charging excessive dues and also are likely to provide fewer services to their members.

Evidence of the latter type of behavior abounds. In the United States, unions are major participants in all sorts of political causes that are unrelated to labor relations or to the economic welfare of their members. Unions have been active in the pro-abortion movement; they have spent considerable resources in support of left-wing authoritarian governments in Central America, Africa, and elsewhere; they are part of the anti-nuclear power movement; they have lobbied for sanctions against the South African government; and they actively lobby for socialistic economic policies (i.e., price controls and nationalization of some industries) that, by hampering economic growth, are not in the best interests of the workers they represent.[6]

Exclusivity allows unions to shirk some of their basic responsibilities, such as contract administration, bargaining, and grievance handling, in order to pursue political causes that are irrelevant or even harmful to the economic welfare of workers. An indication of how far afield American unions have strayed from their basic responsibilities is a 1989 Supreme Court decision that it is unconstitutional to compel workers to pay union dues to finance activities that are not directly related to bargaining, contract administration, and grievance procedures. In the case of *Beck* v. *Communication Workers of America*, the Court found that the union spent less than 20 percent of its dues revenues on appropriate expenses. The other 80 percent was spent on politics. Other cases have found that as little as 10 percent of dues revenues are spent on legitimate purposes. The Supreme Court ruling will likely weaken the monopolistic grip that unions have over their members, but exclusivity continues to entrench much of their monopoly power.

Because of the monopoly powers granted to them by exclusivity legislation, unions may also be unresponsive to their members' demands for changes in collective bargaining strategies. There have been many cases in the United States, for example, where workers were convinced that they would have to make concessions if they wanted to remain employed. Union officials, however, often have refused to heed the preferences of their members, sometimes causing the members to lose their jobs. Unions would be more likely to cater to their members' preferences if there were competitors in the employee representation business, but such freedom of choice is precluded by law.

Agency Shop. A further infringement on the economic liberties of workers is the so-called agency shop, whereby workers who do not belong to a union must nevertheless pay union dues. The rationale for the agency shop is derived from exclusivity. Since unions are required to bargain for all workers (union and nonunion) in a bargaining unit, it is supposedly necessary to compel all workers to pay for bargaining services.

In the terminology of economics, collective bargaining is said to provide workers with "public goods," and compulsory union dues supposedly are necessary to prohibit free riding. But since government created the situation where all workers are forced to submit to a single monopoly bargaining agent, a better phrase than "free riders" would be "forced riders." Workers are forced to accept

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the results of union bargaining and, where an agency shop exists, also are forced to support the union financially. To workers who are worse off because of this arrangement, exclusivity creates a "public bad," not a public good: workers are forced to pay dues for the "privilege" of being made worse off. An agency shop literally constitutes taxation without representation and is a serious encroachment on economic freedom.

Union Violence. The long history of union violence can be readily explained by economic theory. In order to push wages above competitive levels, unions must restrict the supply of labor services on the market. They strike or threaten to strike in order to do this, and strikes are often more effective if workers who choose not to strike can be intimidated by violence. Employers also can be subjected to violence, threats of violence, and the destruction of property unless they acquiesce to union demands.

II. Domestic Labor Legislation

Governments also deprive workers of economic freedom through laws and regulations that affect wages and working conditions. Although these restrictions vary greatly, they all share the common element that they substitute governmental for individual (or market) decision-making. They all are carried out under the pretense that government somehow has better knowledge of the "best" wages, hours of work, types of jobs, and so on, than individual workers and employers have. This type of thinking is what F. A. Hayek calls "the fatal conceit" because of the dire economic consequences to which it lends intellectual support.

Minimum Wage Legislation. Most democratic countries have a minimum wage law that raises wages of low-skilled workers above going market rates. Virtually any economics text explains that mandating above-market rates causes unemployment by pricing low-skilled workers out of jobs. There is no better example of a law that hurts those whom it purports to help or that constitutes a clearer infringement on economic liberties. As Adam Smith said in *The Wealth of Nations*, "The patrimony of a poor man lies in the strength and dexterity of his hands," and to deprive him of this through restrictive labor legislation "is a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him."

The minimum wage law even harms workers who are not priced out of the market by it. If employers are forced to pay higher wages, they either will lay off some workers or cut back on other fringe benefits so that the total compensation package doesn't exceed each worker's marginal productivity. Thus, freedom of choice is diminished for workers who may prefer a different mix of wages and fringe benefits.

The minimum wage law is inefficient and inequitable, but it persists for several political reasons. First, it lends itself to demagoguery better than most government policies. It is natural for politicians to claim to be able to solve social problems by simply passing a law, and what nicer law than one mandating higher wages for the poor?

A second reason is that unions want to price unskilled nonunion labor, which competes with more skilled, union labor, out of the market. In the name of compassion for the poor, unions lobby for legislation that makes the poor even poorer. The minimum wage is a device through which the poor are used as political pawns to the benefit of demagogic politicians and politically active unions seeking protectionist legislation.

Maximum-Hour Legislation. Another infringement on economic liberties is maximum-hour legislation which, in general, limits the number of hours that workers can work and/or mandates that higher wages must be paid for any work hours over a specified amount. Since overtime pay provisions increase labor costs, the effect is to reduce the level of production and, consequently, the number of hours worked. Individuals who prefer to work more hours or to vary their work hours over the course of a week may be precluded from doing so.

Davis-Bacon Laws. Another related measure of labor market intervention is the existence of laws, such as the Davis-Bacon Act in the United States, which mandate that government-specified wages be paid. In the case of Davis-Bacon, the government-specified "prevailing wage" in an area must be paid on all Federally supported construction projects, even if the Federal support is less than 1 percent of the cost of the project. The "prevailing" wage is almost always the union wage, and the

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effect of the Act is to drive lower-wage, nonunion labor from the market. Making wages artificially high restricts competition from lower-wage firms, depriving their owners, managers, and employees of economic opportunities.

Restrictions on Child and Female Labor. For over a century various countries have prohibited or limited child and female labor. The rationale behind the restrictions is that they supposedly are needed to protect women and children from being exploited by employers.

Even though this rationale for regulation is widely accepted by the general public, the regulations are not likely to protect the intended beneficiaries. It is difficult to perceive that regulations prohibiting such work would benefit those individuals who *voluntarily* chose to work. If they felt they were being made worse off by their employment situation, they would simply quit.

There is evidence, moreover, that when such regulation originally was being proposed in England there was fierce opposition to it *by the women whom the regulation was supposed to help*. It is likely, therefore, that such regulation may always have been designed to protect incumbent workers from competition.

Occupational Licensing Laws. Occupational licensing laws have been shown to create barriers to entry in literally hundreds of professions in the United States and many other countries.[7] The restrictions come in many forms, such as license fees, educational requirements, and regional or national examinations.

Licensing has been defended on the grounds that it assures professional competence and protects consumers from lower-quality products and services. These arguments may or may not have merit, and they will not be discussed in detail here. But regardless of the motivation for the laws, their effect is to make it more difficult to enter regulated professions. Consequently, many individuals are deprived of employment opportunities.

This licensing-induced reduction of employment opportunities likely imposes a greater burden on lower-income individuals rather than on higher-income people since it often deprives the former group of valuable opportunities to accumulate human capital—opportunities they may not otherwise be able to obtain.

Again, there is much evidence that occupational licensing is often a *political* response to pressures from incumbent practitioners who want protection from competition. An anecdote will illustrate what I believe to be typical of the politics of occupational licensure.

Economist Walter Williams recently appeared on a televised debate with Congressman Charles Rangel. Williams, who is black, made the point that the licensing of hairdressers in Rangel's home state of New York discriminates against blacks. It does so, said Williams, because to become certified as a hairdresser one must pass a practical exam as well as a more academic one that includes math problems. (The relationship between the ability to coif hair and the ability to do mathematics is, to say the least, dubious.) Williams pointed out that an equivalent percentage of blacks passed the practical exam as whites, but the failure rate of blacks on the academic exam was several times higher than the whites. Williams blamed the discrepancy on inferior government schools that so many black New Yorkers are compelled to attend.

Congressman Rangel, who also is black, did not dispute the test results and did not deny that the system kept many of his constituents unemployed. But he nevertheless supported the licensing system. His preferred "remedy" for urban unemployment was not to eliminate the sources of unemployment, such as occupational licensing laws, but to increase welfare spending.

This type of behavior is readily explained by elementary public-choice logic. On the "demand side," the unionized practitioners are well organized and well financed politically, and are able to use the political process to protect themselves from competition with occupational licensing regulations. Those who are harmed by the regulations are not well organized and, hence, are less politically effective.

From a "supply side" perspective, politicians can win votes from the incumbents by supporting licensing, and they can also win votes from those who are denied employment opportunities because of licensing by offering them welfare payments or government patronage jobs.

In this instance the citizens whose liberties are abridged are made effective wards of the state either as welfare recipients or by relying on another form of handout—a government job—for their livelihood. Thus, occupational licensing is yet

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another way in which the poor are used as mere political pawns by cynical political opportunists.

Equal Pay for Equal Work Laws. These laws are intended to protect certain groups, particularly women, from wage discrimination by mandating that employers pay equal wages for the "same" work performed by workers of different sex and race. The irony is that these laws result in reduced employment opportunities for those who are supposedly helped.

If an employer pays females less than males, for example, it is because he subjectively values female labor less highly. He may genuinely believe that his female employees are less productive and less capable, or he may simply be discriminating against them because they are women. In either case, equal pay for equal work laws will induce the employer to hire fewer female workers. If forced to pay equal wages, the employer will prefer male workers. Thus, women who are willing to work at least temporarily for lower wages in order to prove that they can do the job are denied the opportunity.

In other words, women can provide employers with *economic* incentives to hire them, despite discrimination, but are not permitted to do so because of "equal pay" laws. Thus, equal pay for equal work rules, which are supposed to reduce discrimination, actually increase it.

That these laws harm the groups they are supposed to help is made clear by the fact that in some countries, such as South Africa, there is no pretense that the laws are supposed to protect people who are discriminated against. In South Africa, white racist labor unions lobbied for "equal pay" laws for black workers because they knew the laws would protect white employees from competition by relatively less skilled black workers. Since most blacks were less experienced, forcing employers to pay them wages that exceeded their marginal productivity would price them out of jobs.[8] In other countries the motivation behind the laws may be well-intentioned, but the effects are the same.

Equal pay for equal work laws reduce economic freedom, but "equal pay for work of comparable value" legislation would be even worse. This is a proposed system of governmental wage determination whereby government bureaucrats, rather than the marketplace, would set wages. I will not say anything more about this other than it's already been tried—in the Soviet Union, China, and Eastern Europe—and it doesn't work. History shows that such governmental control over wages is grossly inefficient and inequitable.

Employment Quotas. Most democratic governments have policies that require employers to make some of their hiring and promotional decisions solely on the basis of non-economic factors, such as race or sex. Obviously, this denies individuals the freedom to seek employment or career advancement based on merit.

In the United States, employment quotas originally were enacted with the promise that they would *not* be used to force employers to make decisions based solely on race. The late Senator Hubert Humphrey promised that the Civil Rights Act of 1964 "does not require an employer to achieve any kind of racial balance in his work force by giving preferential treatment to any individual or group." The phrase "affirmative action" was coined by President Kennedy in his executive order that "affirmative action" should be taken to assure that Federal contractors *do not* make employment decisions based on race, creed, color, or national origin.[9]

In practice, so-called affirmative action policies do exactly the opposite of what their proponents claimed they would. They *require* that employment decisions be made specifically according to employees' race, creed, color, or national origin. Consequently, "non-preferred" individuals who may be more qualified are passed over by employers who must satisfy the *government's* preferences for discrimination in the workplace. There is mounting evidence, moreover, that even many of the "protected" minorities are denied economic opportunities because of affirmative action policies.

Economist Thomas Sowell has found that the relative economic position of "protected" minority groups in the United States actually *fell* after employment quotas were instituted. "In 1969, *before* the federal imposition of numerical 'goals and timetables,' Puerto Rican family income was 63 percent of the national average. By 1977, it was down to 50 percent. In 1969, Mexican American family income was 76 percent of the national average. By 1977 it was down to 73 percent. Black family income fell from 62 per-

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cent of the national average to 60 percent over the same span."[10]

Sowell also found that blacks with less education and job experience have fallen farther behind, while blacks with more education and experience have been advancing even faster than their white counterparts. He offers a clear explanation of this phenomenon:

> Affirmative action hiring pressures make it costly to have no minority employees, but continuing affirmative action pressures at the promotion and discharge phases also make it costly to have minority employees who do not work out well. The net effect is to increase the demand for highly qualified minority employees while decreasing the demand for less qualified minority employees or for those without a sufficient track record to reassure employers.
>
> Those who are most vocal about the need for affirmative action are of course the more articulate minority members—the advantaged who speak in the name of the disadvantaged. Their position on the issue may accord with their own personal experience, as well as their own self-interest.[11]

Thus, like the minimum wage and occupational licensing laws, employment quotas deny employment opportunities to those who need them the most—relatively unskilled and uneducated minorities who are "targeted" for help by the government.

Government "Jobs" Programs. All democratic governments have long been involved in employment or job training programs. Despite their popularity, however, they *reduce* economic liberties and employment opportunities.

It is impossible for government to "create" jobs because of the law of opportunity cost. Government may "create" some jobs with such programs, but it necessarily destroys other private-sector jobs by diverting financial resources from the private sector (through taxes, government borrowing, or inflationary money creation) to pay for the government jobs. At best, government "jobs" programs alter the *composition* of employment, but not the aggregate level.

Furthermore, many government jobs are wasteful because they don't meet legitimate consumer demands. The history of government jobs programs is filled with examples of "make work" jobs that seem to emphasize political patronage more than employment opportunity.[12]

The reason government jobs programs remain popular despite their failure to stimulate employment (or training, for that matter) is that the benefits are well defined—job recipients know where the jobs came from and whom to thank (or vote for)—whereas the costs are hidden. Those unemployed because of the crowding-out effect of these programs have no idea of the cause of their unemployment.

This is one way—generating unemployment—that government jobs programs diminish economic freedom. They also impair economic freedom and opportunity because the *kinds* of jobs and training determined by government bureaucrats are not necessarily those that people would freely choose in the private sector. This allows government bureaucrats to exert a degree of control over what types of jobs will exist and what types of skills people will possess.

Giving government such powers opens the door for ever-expanding governmental control of the allocation of labor. In totalitarian regimes such as the Soviet Union there is a nearly complete domination of the labor market by government. Its "jobs programs" are so extensive that everyone works for the state. The only "real" jobs in the Soviet Union are ones held by black marketeers.

In Nazi Germany, government officials were allowed to monitor and control every proposed job change, thereby directing workers into those endeavors the bureaucrats thought served "national interests" regardless of the interests of individuals who comprised the nation.

Of course, modern democratic governments don't possess anything like the powers over labor markets that the Soviet Union does or Nazi Germany did. But the differences are only a matter of degree (albeit a large degree). Along with extensive employment programs, all democratic countries keep extremely detailed personal information on workers and labor markets, and they use that information to shape government policy.

Government employment programs threaten economic freedom in a very general sense in that consumer sovereignty is replaced by bureaucratic sovereignty. In a free market the types of jobs created are those that serve the desires of consumers. Government jobs, on the other hand, usually are

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designed to serve the whims of political authorities, which often are in conflict with consumers. After all, if there is a legitimate consumer demand, there is an incentive for a private entrepreneur to meet it and to hire workers to assist him in doing so. Thus, to a large extent, government jobs are created to provide goods or services that consumers either have not expressed a preference for or, if they have expressed a preference, it was a negative one.

Mandatory Government Arbitration. All the labor market interventions discussed thus far involve government's attempt to intervene in private contractual relations between workers (or their unions) and employers by setting wages, establishing bargaining procedures, and so forth. In addition, governments also intervene in the *arbitration* of labor disputes. The U.S. government, for example, has a "Federal Mediation and Conciliation Service" that cajoles negotiating parties into "voluntarily" cooperating in order to end a labor dispute. The federal government has only limited power to mandate a settlement for most workers (with the exception of those covered by the Railway Labor Act), but it can apply significant political pressures to achieve that end in virtually any industry. The effect of this intervention is that disagreements between workers (or their unions) and employers often are settled according to criteria established by the Federal Mediation and Conciliation Service, not by the negotiating parties.

Although there is no formal power to force such agreements on most industries, the federal government's ability to "induce" an agreement should not be underestimated. American industry is so heavily regulated, and so many businesses accept government subsidies, that government has a tremendous amount of leverage over the private sector. Government has a long list of "carrots and sticks" it can use to affect private bargaining outcomes. It can threaten regulation and the withdrawal of subsidies, or it can bribe the bargaining firms and unions with promises of subsidies and other governmental favors.

Occupational Safety and Health Regulation. Modern democracies also heavily regulate "occupational safety and health." This intervention gives government enormous powers over private labor relations because an argument can be made that almost any aspect of a business operation is at least tangentially related to safety and health. Governments have taken advantage of these broad powers to regulate everything from the construction of ladders to the shape of toilet seats.

Research has shown, however, that occupational safety and health regulation is not likely to improve workplace safety, despite massive expenditures.[13] Furthermore, the regulation has interfered with market forces, which "address" the problem through compensating wage differentials. That is, in a free market, employees in more dangerous jobs will be paid higher wages, all other things equal. Employers must pay higher wages to attract workers to more dangerous jobs. This won't necessarily eliminate or even reduce the incidence of workplace accidents but, then, neither does regulation. Furthermore, reliance on compensating wage differentials, rather than regulation, would avoid the loss of jobs associated with the heavy costs of occupational safety and health regulation. It also would give workers and employers more freedom in determining how to improve workplace safety, rather than relying on bureaucratic edicts.

There is much to commend this market approach, for no one has stronger incentives to assure a safe workplace than employees themselves. Regardless of how well-intentioned the safety regulators may be, they just don't have the incentive or the detailed knowledge required.

It should be kept in mind that there are economic (and common-sense) incentives to reduce workplace accidents, for accidents are costly to employers and especially to workers. And it should be remembered that governmental "safety" regulation can provide a false sense of security. Job safety depends ultimately on how careful and responsible individual workers are. If they are told by governmental safety inspectors that their workplace is "safe," they may be less inclined to take their own precautions. The end result may be a *less* safe workplace.

Employer Payroll Taxes. All democratic countries have mandatory employer payroll taxes, the most significant of which are taxes for unemployment insurance and old-age pensions, or social security. A detailed examination of the economic effects of such programs is beyond the scope of this

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essay, but several aspects of them are particularly relevant to economic freedom.

First, these programs constitute what might be called "mandated benefits," whereby governments compel employers to finance certain benefits on behalf of their employees. One implication of this is that employees consequently have less freedom of choice to determine their own mix of wage and non-wage remuneration. Furthermore, even though the taxes are at least partly paid by employers, they are passed on to employees in the form of lower wages or other benefits, thereby constituting a hidden tax on workers. Because the tax is hidden, workers are less able to make well-informed choices regarding their own compensation mix.

Government-operated unemployment insurance and social security programs often allow governments to become monopolists in the provision of those services. There are many actual and potential substitutes for these government-controlled programs but it is difficult, if not impossible, for them to compete with government. For example, individual retirement accounts (IRAs) compete with the Social Security system in the United States, but since the system drains so much income from workers through mandatory payments, there is much less available for private retirement plans.

It also would be possible for individual workers to contribute to an IRA-type account to be used as unemployment insurance, but governments usually prohibit such options. This is especially unfortunate in light of the many failures of governmental unemployment insurance, which essentially pays people not to work by offering unemployed workers "replacement income" as a percentage—sometimes close to 100 percent—of their prior wages.

By reducing the cost to workers of being unemployed, unemployment insurance lengthens the duration of unemployment. It also increases unemployment by indirectly subsidizing industries that experience seasonal or cyclical variations in employment.

For example, without unemployment insurance a firm with an unstable employment pattern would have to pay higher wages to attract workers. The higher wage would be necessary to compensate workers for the risk of becoming unemployed. But with unemployment insurance the *government* compensates workers for becoming unemployed. This in turn makes unstable employment more attractive to workers than it otherwise would be. The increased supply of labor in those industries will reduce wage rates, which in turn diminish the incentive for firms to do anything about unstable employment patterns. Thus, unemployment insurance encourages unstable sectors of the economy to expand, resulting in higher overall unemployment.

Both unemployment insurance and social security taxes are major infringements on the economic liberties of workers and employers, because they place severe limitations on freedom of choice, freedom of exchange, freedom of contract, and freedom of association. Because government controls a significant portion of workers' income through these programs, and because the programs crowd out private-sector alternatives—if the law permits alternatives at all—individuals are denied all these freedoms.

Peter Ferrara describes how the Social Security system infringes upon individual economic liberties. Government-controlled social security, he writes,

> . . . forces individuals to enter into contracts, exchanges, and associations with the government that they should have the right to refuse. It prohibits individuals from entering into alternative contracts, exchanges, and associations with others concerning the portion of their incomes that social security consumes. It prevents individuals from choosing courses of action other than participation in social security, although these courses of action will hurt no one. It prevents individuals from enjoying the fruits of their own labor by taking control of a major portion of each individual's income. The program prevents individuals from arranging their own affairs and controlling their own lives. It operates by the use of force and coercion against individuals rather than through voluntary consent. The social security program thus restricts individual liberty in major and significant ways, violating rights that are worthy of great respect.[14]

The same can be said for any government-mandated benefit program.

Taxes on Labor Income. Perhaps the most important interference with an individual worker's

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economic freedom is the income tax. The income tax denies a worker the ability to keep the fruits of his or her own labor, and is truly a way in which workers are exploited—by government.

Karl Marx's labor exploitation thesis was half right. He complained that labor was unfairly exploited because it supposedly produced *all* value—an incredibly naive and simplistic assumption—yet it received only a small part of it in the form of wages. Marx was correct about labor being exploited, but he was wrong about who the exploiters were. By blaming capitalists, he ignored the productive contributions of capital and entrepreneurs. He also ignored the fact that government is the major source of worker exploitation by expropriating income to which government itself has no legitimate claim. Ironically, Marx was a strong proponent of progressive income taxation, which exploits workers even more than proportional taxation.

Income taxation is, in effect, a form of slavery or forced labor. It forces individuals to pay taxes so that part of their income is given away to someone else—farmers, corporations, welfare recipients, defense contractors, unions, and thousands of other well-organized special interest groups—who did nothing to earn or deserve it. H. L. Mencken's dictum that an election is an advance auction in stolen property is as true as it is trite.

Of course, not all income that is taxed is necessarily used for government-mandated income transfers. To the extent that some of it is used to finance a criminal justice system, national defense, and in generally maintaining the rule of law, it enhances rather than diminishes economic freedoms. However, these functions are a relatively minor aspect of the modern welfare state. The modern state is a vast income redistribution machine that shuffles wealth around *within* the middle class.

Mandating Job Security. Many countries have various laws and regulations that supposedly guarantee "job security" by restricting the flow of capital. Laws that make it more costly or prohibitive to close down a plant are examples. Such laws may be well-intentioned, but they deprive workers and business owners of economic freedom and are undeniably harmful to a nation's economy. By hampering economic growth, they ultimately impoverish the workers in whose name the laws are enacted. Job security laws, in other words, reduce job security.

Advocates of such legislation usually ignore the fact that workers and employers often negotiate various types of "job security" provisions in their contracts. It must be realized that if, for example, a union wants a contract that includes severance pay if the plant closes down, that provision will be "paid" for by a negotiated reduction in wages or other fringe benefits. There is no free lunch; acquiring such benefits requires trade-offs. That's why laws that mandate job security provisions reduce economic freedom. They deprive workers of freedom of choice by forcing them to accept one particular benefit—a benefit they may not want if they know how much it costs them in terms of forgone wages. So-called job security legislation also deprives employers and business owners (shareholders) of economic freedom. It prohibits them from making the best use of their resources, which can only be impoverishing.

III. Immigration

Freedom of migration is a basic human right that is essential if individuals are to be free from governmental oppression. The ability to change employment or to seek employment elsewhere—even in another country—is a hallmark of economic freedom. Thus, free immigration and emigration is most conducive to economic freedom and opportunity.

No country in the world has perfectly free immigration. The United States is generally regarded as among the most free—there are about twice as many immigrants entering the U.S. each year as there are in all the rest of the world combined. Yet America does place restrictions on immigration.

Since all countries place some limits on immigration, one method of comparing them is by calculating the allowable number of immigrants as a percentage of the nation's population.

Taxes on Immigration. Some countries charge immigrants fees or taxes. In such cases large statutory numbers of allowable immigrants may not be very meaningful if the charges are so high as to exclude large numbers of people. Therefore, the existence of "entrance fees" into a country is another criterion that may be used. The amount of the fee may be standardized as a percentage of

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average annual income in the country receiving the immigrants.

Enforcement. Many countries are concerned about illegal immigrants. From the perspective of labor market freedom, however, the more illegals the better. The fact that the United States finds that its enforcement of illegal immigration is weak, and that its borders are "out of control," is a plus. Consequently, another measure of labor market freedom is the budget of the appropriate immigration enforcement agency as a percentage of the nation's total governmental budget. The higher the budget allocation, the stronger the enforcement and the lesser the degree of economic freedom.

Labor Market Tests and Lists of "Undesirables." In some countries, laws specifically outlaw immigration if the immigration enhances a free market in labor. In the United States, immigrants are required to prove that their employment won't displace an American worker *and* that their presence won't reduce wages. This is clearly a protectionist law instigated by organized labor.

Some countries limit immigration according to racial or ethnic criteria. America has a long history of discriminating against Chinese and Japanese immigrants in this way, although such discrimination was outlawed in 1965.

Amnesty. Granting amnesty to illegal immigrants who over a period of years have established "roots" in a country dilutes immigration restrictions and, consequently, enhances economic freedom.

Temporary Workers. Since a half a loaf is better than none, countries that allow temporary "guest workers" exhibit a higher degree of economic freedom, all other things equal, than those that don't.

Concluding Thought

Government at all levels spends hundreds of billions of dollars each year ostensibly to help the unemployed and others living in or near poverty. Despite these massive expenditures, however, the welfare state is a failure. Paying people not to work only fosters perpetual dependency.

Rather than continuing to fund a counterproductive welfare system, a more direct means of reducing poverty would be the deregulation of labor markets. As this essay has shown, the major forms of government intervention in labor markets serve only to "protect" certain groups of workers from competition by denying job opportunities to others. More often than not, those workers who are denied job opportunities because of government intervention are those most in need: the least skilled, least educated, and least affluent. □

1. Economic freedom requires a set of customs, moral constraints, or laws that prevent individuals or groups from committing violent or coercive acts against others. Thus, mutual consent between two burglars plotting a robbery, for example, is not an example of economic freedom in the sense we are discussing.

2. See Bernard Siegan, *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1980); Richard Epstein, *Takings* (Cambridge, Mass.: Harvard University Press, 1985); and Terry L. Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, Calif.: Hoover Institution Press, 1980).

3. National Labor Relations Act, Section 7 (emphasis added). Quoted in James T. Bennett, Dan C. Heldman, and Manuel H. Johnson, *Deregulating Labor Relations* (Dallas: Fisher Institute, 1981), p. 50.

4. Morgan O. Reynolds, *Power and Privilege: Labor Unions in America* (New York: Universe Books, 1984), p. 98.

5. Thomas J. DiLorenzo, "Exclusive Representation in Public Employment: A Public Choice Perspective," *Journal of Labor Research*, Fall 1984, pp. 371-90.

6. For a detailed discussion of the political agenda of organized labor in the United States see James T. Bennett and Thomas J. DiLorenzo, *Destroying Democracy: How Government Funds Partisan Politics* (Washington, D.C.: Cato Institute, 1985), chapter 13.

7. A thorough discussion of the economics of occupational licensing is found in S. David Young, *The Rule of Experts: Occupational Licensing in America* (Washington, D.C.: Cato Institute, 1987). See also R. D. Blair and S. Rubin, *Regulating the Professions* (Lexington, Mass.: Lexington Books, 1980); and Timothy R. Muzondo and Bohumir Pazderka, "Occupational Licensing and Professional Incomes in Canada," *Canadian Journal of Economics*, November 1980, pp. 659-67.

8. Walter E. Williams, *South Africa's War Against Capitalism* (New York: Praeger, 1989).

9. Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: William Morrow & Co., 1984), p. 39.

10. *Ibid.*, p. 51.

11. *Ibid.*, p. 53.

12. Thomas J. DiLorenzo, "The Myth of Government Job Creation," Cato Institute *Policy Analysis*, February 1984.

13. W. Kip Viscusi, "The Impact of Occupational Safety and Health Regulation," *Bell Journal of Economics*, Spring 1979.

14. Peter J. Ferrara, *Social Security: The Inherent Contradiction* (Washington, D.C.: Cato Institute, 1980), pp. 275-76.

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When Folk Sayings Are Ignored

by Daniel F. McInnis

"You can't make a silk purse out of a sow's ear" was one of my grandmother's favorite sayings. Grandma, however, had never seen the likes of modern chemistry. Increasingly, entrepreneurs are able to transform anything into something else. Out of oil, we make nylons and perfume, plastic dishes and fertilizers. Our trees become buildings or methyl alcohol or newspapers. Even garbage can take on new life, as paper, glass, and metals are reused.

Nonetheless, Grandma had a point. If you want to make silk purses, it's a lot easier if you start with silk.

Proponents of government-mandated recycling have forgotten this simple insight. Recycling has become a battle cry for the environmental movement, a call to arms that can often make little economic or environmental sense.

Your daily newspaper is a perfect example. According to the Environmental Protection Agency (EPA), newsprint makes up almost 20 percent of all garbage, paper as a whole, 40 percent. Currently, only one-third of all newspapers are reused, leaving nine million tons of waste paper a year. A mountain of garbage, scream the environmentalists. Needless destruction of trees, they quickly add. Legislators are listening. California will require a 25 percent recycled-fiber content in newspapers by next year and Connecticut 20 percent by 1993. Some 16 other states are considering similar legislation. New York is supposed to be able to recycle a quarter of all its trash by mid-1994.

But what happens when states mandate recycling? The New York City Sanitation Department says it is meeting the collection goals mandated by law, but may have to end up dumping the sorted waste into the Fresh Kills landfill. Moreover, the city now pays paper collectors $25 a ton to haul away newsprint. The market simply collapsed when the supply of waste paper far exceeded the limited demand for more expensive and often lower quality recycled paper.

Washington, D.C., faced a similar problem when it began mandating paper recycling. The solution: instead of dumping paper into a landfill as it had in the past, the waste is now stored in a warehouse.

In both cases, government intervention had an unintended result. Less paper was recycled because markets were glutted, and it became unprofitable for anyone to collect and recycle trash.

The Diaper Debate

The environmentalists' recycle-at-all-costs campaign not only is driving people out of the recycling business, but it often has dubious benefits for the environment as well. This is best seen in the disposable versus cloth diaper debate. When finally discarded, cloth diapers in sum take up consider-

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BILL BONGIORNO, FAR-FLUNG ENTERPRISES

To choose between disposable and cloth diapers is to pick between less space in landfills and greater air and water pollution. There is no clear winner or loser.

ably less space in landfills than disposables, but along the way they use twice as much energy, cause four times the water pollution, and create twice the amount of air pollution according to a "cradle-to-grave" analysis by Franklin Associates, a leading supplier of data to the EPA. These environmental costs are largely hidden since they don't end up in the form of a pile of soiled diapers. Instead they are transformed into the emissions of trucks delivering and picking up diapers, the sewage from washing machines, and the depleted soil from the intensively cultivated cotton crop.

Moreover, new mothers have been made to feel needlessly guilty when they use disposable diapers for their children. Some environmentalists seem less than sympathetic. "Parents who simply prefer the convenience of disposables *should* feel guilty," says Allen Hershkowitz of the Natural Resources Defense Council.

While crusading against convenience may seem noble, the actual environmental costs don't bear the critics out. To choose between disposable and cloth diapers is to pick between less space in landfills and greater air and water pollution. There is no clear winner or loser.

One hundred percent recycling almost never makes economic sense—or environmental for that matter—when the extremely high energy needs are factored in. Unfortunately, many environmental activists won't settle for less.

Some recycling, of course, does make sense. After all, it's cheaper to wash your clothes than throw them away and buy new ones. This simple economic test should be applied to anything that we may consider recycling, especially since the price tag is a strong indicator of environmental effects. Products that use fewer resources throughout their existence generally have less impact on the environment. Absent cost-distorting government subsidies and regulations, prices tell consumers which product is environmentally superior. Now that's a bargain even my grandmother would love. After all, another of her favorite sayings was that a penny saved is a penny earned. □

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Corporate Social Responsibility: A Dialogue

by T. Franklin Harris, Jr.

Imagine if you will that ancient Greece's two greatest philosophers, Plato and Aristotle, are alive today and debating philosophical subjects much as they did in Plato's Academy. The subject at hand is the moral responsibility of corporations to the whole of society.

Plato: The debate over the social responsibilities of corporations is perhaps the most crucial, and certainly one of the hottest in the field of business ethics. Corporations, as the largest and most visible members of the business community, stand at the center of any discussion of the role of business in society. Of course, as in any debate, there are different views; thus, there is some contention as to what that social responsibility actually is.

Aristotle: What are the most prominent of these views?

Plato: Well, there are three major schools of thought, each with its own proponents. The first, and probably the most prominent, is the corporate accountability theory. Its major proponent is the "consumer advocate" Ralph Nader.

The second major theory is the profit motive theory. Its most prominent advocate is Milton Friedman. Dr. Friedman was a professor of economics at the University of Chicago for many years, and has received the Nobel Prize for his work in that field.

The third and most recent theory is the corporate natural rights theory. Although it has no defenders of the public stature of Mr. Nader and Dr. Friedman, it does have competent proponents. The specific argument that we shall discuss in favor of this theory is advanced by Douglas J. Den Uyl, a professor of philosophy at Bellarmine College in Louisville, Kentucky.

Aristotle: What are the main thrusts of these arguments?

Plato: The corporate accountability theory, in brief, holds that corporations are responsible to and subject to the will of the people, that is to say, society. The profit motive theory holds that, in the words of Dr. Friedman, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game. . . ."

The corporate natural rights theory basically states that Dr. Friedman is right about profit being the major goal of corporate business, but that there are other moral responsibilities that must be met so long as they don't directly conflict with the profit-making goal.

Aristotle: It seems these arguments merit a more in-depth discussion.

The Corporate Accountability Theory

Plato: The corporate accountability theory rests upon two major assumptions. The first is that corporations are "creatures of the state." This

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assumption means that corporations are created by, and indeed could not exist without, government charters. The second assumption is that corporations, because of their size and economic power, are on the same level as governments. They possess as much "public power" as do states; therefore they, like governments, must be Constitutionally limited. As Nader has written, "It makes no public sense to apply the Constitution to Wyoming and West Tisbury, Massachusetts, but not to General Motors and Standard Oil, New Jersey."

Aristotle: This all seems silly to me. What is the basis for these assumptions?

Plato: The argument is basically historical. The first corporations were chartered in England during the 1500s. "The Crown vested governmental authority in certain commercial groups to trade in its name." (Nader 1973) Corporations originated, not as groups of individuals deciding voluntarily to pool their resources, but rather as government agents, contributing to the economic power of the country.

Nader regards the idea of corporations as private property as a relatively new and fraudulent concept. It was only over time, and largely as the result of "corruption and favoritism" that the concept of corporations as private property developed: "In the early 1800s most lawyers and judges still viewed corporations as performing public functions in the public interest. But by 1870 . . . this notion had all but vanished. Corporations now considered themselves private property owned and controlled by their shareholders."

Aristotle: So, if corporations are government creations, then the government has the right to tell them what to do.

Plato: Correct. Corporations are public rather than private property. From this point Nader turns to the American system of government.

Corporations gain their authority from the government, which in turn gains its authority from the people . . .

Aristotle: Thus, indirectly the corporations are responsible to the public. The corporation's responsibility is to serve whatever is deemed to be in the public's interest.

Plato: Exactly!

Aristotle: Also, Nader has stated that the Constitution should prohibit certain corporate behavior just as it prohibits certain governmental behavior. Corporations would also be morally obligated to uphold those parts of the Constitution that are commonly thought to apply only to government.

Plato: Remember, Nader believes corporations to be on the same level as government. By necessity they must be limited: "Corporations are effectively like states, private governments with vast economic, political, and social impact. A democratic society, even if it encourages such groupings for private economic purposes, should not suffer such public power without public accountability."

Corporate accountability would require corporations to respect the Fourteenth Amendment, thus requiring due process for an employee before firing, and the Fourth Amendment, which would require a warrant before a company could search the property an employee might have on the job.

Aristotle: I'm afraid these arguments just aren't convincing.

First of all, just because corporations were originally created by the government doesn't mean that they are still "creatures of the state." The English mercantilist system prohibited any private corporate endeavors. The economy was heavily regulated, and government intruded into almost every aspect of citizens' lives. Without government interference, corporations would have sprung up in the marketplace as an efficient means of doing business. In modern times corporations are voluntary associations. Governmental chartering exists only as a holdover from the old system. These charters are unnecessary. Whereas under mercantilism corporations needed charters in order to exist, now, under the American system that largely respects property rights, corporations have the protection of being private property. Contrary to Nader, corporations are owned by their shareholders. They are the ones who paid for their shares as surely as people pay for copies of Nader's books.

Second, since corporations aren't really created by government, the state has no authority to tell them what to do. Morally it doesn't matter how powerful corporations are. They aren't subject to public control. Anyway, Nader's assessment of corporate power is overblown. Corporations don't have military or police power, therefore they cannot force anyone to do anything. Governments are constitutionally limited because they do have the power of force.

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Plato: Then, if corporations aren't creatures of the state and are not legitimately subject to public rule, then corporations have no moral responsibility to be "accountable."

Aristotle: Correct.

Plato: Then let's move on to the second argument.

The Profit Motive Theory

Plato: Milton Friedman accepts your argument concerning the fraudulence of "corporate accountability." Therefore, he believes businesses should be allowed to function freely in an unregulated environment. This does not, however, mean that businesses have no responsibilities.

Aristotle: Yes, but Friedman acknowledges the validity of only one responsibility: to make a profit within the bounds of the "rules of the game." But what are those rules?

Plato: To operate within the rules of the game means to "engage in open and free competition without deception or fraud." (Friedman 1990) But Friedman's argument goes further than simply to require that corporations seek to earn a profit. The profit motive theory expressly forbids corporate involvement in social activity even if it is done freely, without government coercion.

Aristotle: Why is that?

Plato: The basis for this claim rests on the necessity to play by the rules of the game, which means honoring contracts. The managers and executives of corporations are the employees of the business's shareholders. As such, they have a contractual—and thus, moral—responsibility to their employers: "That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom." (Friedman 1990)

Thus, it is the moral duty of corporate executives to carry out the wishes of the shareholders, who, in the main, invest in order to make a profit. Managers cannot morally engage in any activity that reduces the corporation's profitability.

Aristotle: You say, "in the main." What about people who start businesses for reasons other than profit?

Plato: In that case social responsiveness is acceptable. "The manager of such a corporation will not have money profit as his objective but the rendering of certain services." The key point, however remains "that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation . . . and his primary responsibility is to them." (Friedman 1990)

Aristotle: I see, but corporations are made up of individuals. Is Friedman saying that people have no responsibilities other than to make money?

Plato: Not at all. In fact he states otherwise: "Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily—to his family, his conscience, his feelings of charity. . . . But . . . he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes."

There is another point to Friedman's argument. When a manager diverts profits into social causes, he is guilty of taxation without representation.

Aristotle: I'm afraid this argument eludes me.

Plato: If an executive spends funds for social causes, ". . . he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other." Friedman goes on to say: "He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds—all this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on."

In short, the stockholder is taxed by diminished returns on his investments, and the consumer is taxed by higher prices for the company's goods or services that might result from decreased profitability.

Aristotle: The "taxation without representation" argument is indeed weak. Stockholders are able to vote for company executives, therefore there is accountability. Also, anyone who is displeased with how a company is run is free to sell his or her shares. It isn't the same as government taxation, where a person can hardly move to another country where he will, incidentally, also be taxed. People don't have to own stock.

As for consumers, if prices for the goods and services of one corporation go up, they are, to use a favorite phrase of Dr. Friedman, "free to choose" the goods and services of a competitor. This is, after all, the whole idea behind a free market economy.

Now, concerning the argument about contractu-

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al responsibilities, it seems that although Dr. Friedman is correct in insisting that attention be focused on profit, he is neglecting other moral obligations. True, he says people can do what they want on their own time and with their own money, but executives cannot simply leave their humanity at the door when they come to work every morning. Furthermore, charitable contributions can and do often have effects that are, in the long run, beneficial to business.

Plato: You have indeed hit upon something, young Aristotle. In fact, it was the very same sentiments that led to the birth of the third school of thought.

The Corporate Natural Rights Theory

Plato: The corporate natural rights theory means exactly what it says—the primary social responsibility of corporations is to respect individual, or "natural," rights. This means corporations must respect the rights or "moral space" of individuals: "The boundaries [of this moral space] themselves are set by the principle of the non-initiation of physical force. Thus, one is entitled to pursue whatever goals one desires provided one does not cross another's moral boundaries by the initiation of force." (Den Uyl 1984)

Aristotle: Isn't the natural rights theory the same as the "rules of the game" principle?

Plato: In some ways, yes. But the natural rights theory provides a moral reason why one ought to obey the rules of the game.

Aristotle: How does this allow for corporate charitable acts? Presumably contractual obligations are still valid. Any social responsiveness would still violate the contractual agreement between the owners and the management.

Plato: So it would seem at first glance. But Den Uyl's definition of contractual obligations is more lenient than Friedman's. Den Uyl argues that some acts of corporate "charity" are actually wise business decisions. Therefore, a blanket prohibition against corporate charity is unwarranted.

Aristotle: What examples are cited of corporate charity turning out to be beneficial to the function of business?

Plato: Den Uyl cites the case of the Ford Motor Company: ". . . in 1914 Ford Motor Company increased its wages to $5 a day and reduced the work day from 9 to 8 hours. This policy was not viewed at the time as good business, but as virtually an act of charity." As history shows, Ford went on to prosper as a direct result of this so-called "act of charity."

It follows that certain charitable acts could prove beneficial today. A corporation could locate a plant in a low income area as an act of "charity." The low income area might not be the most profitable place to locate, but a profit could be earned, thus not forsaking the profit responsibility. Also, if the area could be built up economically, it would make customers out of people who had previously been left out of the marketplace. These new consumers would then be able to patronize the business community as a whole, thus also potentially benefiting the original business.

Aristotle: This seems to be a tenuous position. A company could very likely not get enough return from its "charitable investment" in order to justify it in the first place.

Plato: Den Uyl argues that it isn't necessary for corporations to maximize profits: "It could be suggested that the owners do not seek to maximize, but rather wish only a certain rate of return. Provided one is not required to interpret 'maximize' to mean what would be received if all parties had perfect information, this question need not detain us either."

Aristotle: And interpreting "maximize" to mean "perfect information" would be a difficult task. It would make it nearly impossible for any manager to adequately fulfill his responsibilities to the corporation's owners. No matter what action he took, it would be morally deficient. It is impossible for all parties to receive perfect information.

Plato: Also, a bad charitable contribution could be treated the same as any bad business decision. It would be a technical failing, possibly resulting in dismissal for the parties involved, but not a moral failing.

Aristotle: So managers are able to live up to their contractual responsibilities while still showing some consideration for other people. Kindness, compassion, and thoughtfulness still have their place.

Money and Morality

Plato: Now, what conclusions have you drawn?

Aristotle: In brief, the corporate accountability

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argument is invalid because it fails to justify government regulation and, therefore, the moral responsibility of corporations to submit to regulation. There is no reason to believe corporations are "creatures of the state."

While the profit motive argument is better, it fails to take into account the moral responsibilities of the individuals who run the corporation. There is more to life than profit, and people don't abandon their other responsibilities in the workplace.

The corporate natural rights argument is the only one that reconciles both the primary goal of business (profit) and the other goals of humanity. It reconciles money and morality. □

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IDEAS ON LIBERTY

The Study of Human Action

Political economy is as easy or, perhaps, as difficult to understand and practice as the Golden Rule or the Ten Commandments. Economics is no more than a study of how scarcity is best overcome, and the first thing we need to realize is that this is accomplished by the continued application of human action to natural resources.

Natural resources are what they are, no more, no less—the ultimate given! The variable is human action.

Political economy, then, resolves itself into the study of what is and what is not intelligent human action. It should attempt to answer such questions as:

Is creative energy more efficiently released among free or coerced men?

Is freedom to choose as much a right of one as another?

Who has the rights to the fruits of labor—the producer or nonproducer?

How is value determined—by political authority, cost of production, or by what others will give in willing exchange?

What actions of men should be restrained—creative actions or only destructive actions?

How dependent is overcoming scarcity on honesty, respect of each for the rights of others, the entrepreneurial spirit, intelligent interpretation of self-interest?

Viewed in this manner, political economy is . . . a division of moral philosophy—a study of what is right and what is wrong in overcoming scarcity and maximizing prosperity—the problem to which it addresses itself.

Once we drop the "scientific" jargon and begin to study political economy for what it really is, then its mastery becomes no more difficult than understanding that one should never do to others that which he would not have them do unto him.

—LEONARD E. READ (1898-1983)

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How to Be an Individual

by Donald G. Smith

One of the distinguishing characteristics of the capitalistic system is the emphasis placed on individual worth. Socialism herds people into classes, a practice which is repugnant to anyone who thinks of himself as a person. One might go so far as to say that it is repugnant to anyone who puts a high value on human dignity.

Once the principle is established, however, we run into another problem: application. Most people agree that they treasure their individuality, but a surprisingly large number haven't the foggiest notion of what to do with it. The truth is that individuality is as much in the doing as in the being.

A lot of people see individuality as a surface thing and try to establish a unique identity by buying a personality at the store. They wear garish clothes, dye their hair strange colors, wear headlamp jewelry, and decorate their skins with tattoos to make some kind of social statement. It is a case of "Hey, look at me!" and is attempted in a way that just doesn't get the job done. An ordinary person who has dyed his hair purple or orange is nothing more than the same nonentity with a funny-looking head. The belief is that mediocrity will somehow gain new credentials from exterior cosmetics. It is much like trying to make one's car go faster by painting it red.

The whole purpose of individuality is excellence—being better at something than other people. Those who had the pleasure of seeing Benny Goodman at his work saw a rather ordinary looking man in rimless glasses and a conservative business suit, but they also saw a human being who could play the clarinet like no one before or since. This made Benny Goodman a unique individual.

Among other Americans who stood out from the flock, we can look at such varied examples as Joe DiMaggio, Clarence Darrow, Beverly Sills, Ernest Hemingway, and Jonas Salk. Each did something extremely well and thus became outstanding. Yet none of them felt the need to dress like a clown to be noticed. They were all recognized, and honored, for no other reason than excellence.

It is the people who comprehend this simple principle of being unique through performance who make our entire political-economic system work. Those who invent, who improvise, who know more about a subject than other people, and who take something that doesn't work and make it work—these people are the very soul of capitalism.

Charles Kettering didn't like the idea of cranking a car to make it start, so he invented the electric starter, making it possible to start the car from the driver's seat. This meant that mobility was no longer the silent partner of brute strength, and as such it did more for the cause of women's liberation than the entire feminist movement.

Henry Ford figured out the assembly-line tech-

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UPI-BETTMANN NEWSPHOTO

Benny Goodman at the Waldorf-Astoria Hotel, 1938.

nique and made it possible to mass produce an automobile. Lewis Waterman saw no need to go on dipping a pen into an inkwell, so he put the ink into the pen. George Westinghouse told the world how to stop a train, and Elisha Otis indirectly invented the city skyline. These people, and thousands like them, have made the system work. They understood that individualism, to have any impact at all, meant working at the top of one's capacity. It is only a concept, a good idea, until someone does something with it.

Fortunately, enough Americans have been inspired to do something with their uniqueness that we have developed in less than three centuries from a frontier outpost to become not only the citadel of freedom but a country strong enough to protect that freedom. These have been the people who prized the individuality-excellence pairing above all things and thus kept the great machine functioning. The ones with the purple hair and the funky jewelry are just along for the ride, trying to be "different" and not knowing how to go about it.

The student who earns A's on his report card has grasped the idea and has found the real meaning of individuality. So has the youngster who has designed his own space ship, who gives piano recitals, who paints pictures of the world around him, or who can name all the states and their capitals. Benny Goodman understood it too. This is why he was at his best in a blue suit and black shoes. □

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A REVIEWER'S
NOTEBOOK

The State of the Union

by John Chamberlain

In the Thirties, reviewing a book by Albert Jay Nock for *The New York Times*, I twitted Nock for referring to Thomas Jefferson reverentially as "Mr. Jefferson" where, often in the same paragraph, it was plain "Mencken" or even plain "Lincoln." A couple of days later I received a one-line letter from Nock. It read "Young man, know your betters."

I never could quite puzzle out Nock's reproof, for I considered Mencken, with his *American Mercury*, and Lincoln, with his Emancipation Proclamation, just as worthy of special salute as Jefferson. Incidentally, I loved every line of Nock's little biography of Jefferson, so there was no prejudice involved in anything I had said.

Nock had a genius for seeing things as they are, and Charles Hamilton, in a Nock anthology just published by the Liberty Fund of Indianapolis, has given us a fine selection of far-sighted excerpts from Nock's books and essays. The title is *The State of the Union: Essays in Social Criticism* (340 pages, $20 cloth, $7.50 paper). The state of the Union in Nock's estimation was never very good, for there was always too much reliance on the coercion in statism.

Nock believed in broad principles. Following the German sociologist Franz Oppenheimer, he insisted that there were only two means by which human beings could satisfy their needs and desires. One was by the economic means. This involved work, sometimes heavy digging in the ground. Naturally people tended to avoid this. It was easier to invoke the political means of letting the State do it by taxing all and subsidizing a few.

The British, looking back on their own Glorious Revolution of 1688, often theorized that a pact accounted for the origin of the State. Nock said no. Tracing back in every instance he could find, he could discover no pact. In all cases the State had come into being when a stronger group appropriated the production of a weaker for their own transfer purposes. Nock is no evangelist; he doesn't talk about rackets. But the best to be hoped for in his thinking is to hold government to a limited racket somewhere this side of Communism and Fascism.

Until he encountered the opinions of Ralph Adams Cram, who thought that perhaps one in 40 individuals was actually human, Nock considered that as long as there was available free land individual progress was possible. He himself would settle for amenities—good food, good theater and opera, and so on. Asked when and where he would have preferred to live, he said France between 1810 and 1885. Brussels and Belgium seemed in the Twenties and Thirties to be the closest approximation of the historic France he favored. So he was always gravitating back to Brussels.

How, in a period of collectivist drift, had he formed his opinions? There is a clear line of progression in his autobiographical *Memoirs of a Superfluous Man*. He had studied Greek and Latin with his father. I find it hard to believe he picked up the Greek alphabet so easily. But there it was.

Jefferson had a well-founded theory that where the State could do something for you, it could also do something to you. It was with this in mind that Nock and the Neilsons of the Swift meat-packing fortune started the *Freeman* as the proclaimed conservator of the idea of voluntarism. The *Nation* and the *New Republic* held

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the field for liberal compromise. The *Freeman* would not be liberal; it would be radical.

It lasted four years. Nock's idea was to hire good people and let them make their own assignments. A young editor (it must have been Suzanne LaFollete, though Nock doesn't name her) took hold, passing along some of Nock's hints and suggestions. Nock's main test of an article's acceptability was that it should be coherent and written in impeccable, 24-carat prose. Lewis Mumford and Van Wyck Brooks, both socialists, were welcomed on esthetic grounds.

Nock was like a doctor who knows that nature can be counted on every time to do most of the healing. Russian General Kutusov who made such good use of space and time had the same idea. "Snoring as a Fine Art" is the title essay in a posthumously published book that takes off from the publication of Caulaincourt's memoirs of Napoleon's 1812 campaign in Russia. Kutusov knew that Napoleon could win on any battlefield by his superior tactical knowledge. So he calculatedly snored and slept whenever there was any suggestion of a direct confrontation with the French army. When Napoleon could do nothing with his occupation of Moscow because nobody remained in town to speak to him, he could only think of going home. This was no surprise to Kutusov, nor to Nock in retrospect.

Nock approved of any economy of means. He happened to be visiting in Pennsylvania among the Amish in the early New Deal period. Rex Tugwell and Henry Wallace were agitated by the supposed need to give state support to agriculture. But the Amish knew nothing about agricultural depression. The aim of the Amish farmer was to work his own land with the help of his children to raise enough food to feed his own family. If there was any surplus it could be sold for cash. Nock noticed that the whole Amish community was rich where other farming areas were poor.

There were things that Nock could barely stomach. He tells about a community that permitted a man to be burned alive. The killing was a frightful crime. It could only have happened in wretched steel-making country where there was, to quote Nock, "an upper class materialized, a middle class vulgarized, a lower class brutalized."

Nock can't stay with vulgarity or with brutality very long. He had been well brought up, living at first in Brooklyn on heights that overlooked lower New York, and later moving with his family to lumber country in Michigan. Here Nock's theory about what should be vouchsafed to the reader by way of biography breaks down. We don't know what Nock's father did in lower Manhattan or why he went to lumber country. We miss the connections that took Nock to a school in Illinois that gave him some insight into the difference between educating the "educable" in the "grand old fortifying curriculum" of the classics and shunting the run-of-the-mill students into training for special tasks. All we know about connections is that Nock found Thomas Jefferson's idea of picking one out of 20 or more for special educable attention to be a good thing.

Amenity became the key concept of Nock in his post-*Freeman* days. One of the most fascinating sections in *The State of the Union* is about Nock's trip through "a little-visited European country" which, with tongue in cheek, he calls "Amenia." Amenia is "a very beautiful land," with inhabitants who are "uncommonly amiable and gracious to strangers." There is a good deal of illiteracy in Amenia, but plenty of bookstores. The Amenians, says Nock, have only the vaguest notion of "creating a market" for anything, including literature. They have not even learned the art of "sophisticating" their products. The staples, nonetheless, are fine. The railroads are cheap and safe. Amenia is well off for natural resources, and there is enough gold to go around, "so why not let it lie awhile" in the ground?

Does Amenia lack enterprise? Nock noticed that it was short on "economism," by which he means the insistence that if you make a thing well, you must go on making it whether the demand is there or not. If it is not there, advertising pressure will create it.

Nock expressed the hope that the "civilized Amenia" of 10 years hence "will be as charming and captivating" as the Amenia "which I have had the good fortune to visit." We have been privileged to follow Nock in a grand spoof. But it is the key to his amenity-loving character. □

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BIONOMICS: THE INEVITABILITY OF CAPITALISM
by Michael Rothschild
Henry Holt and Company, 115 W. 18th Street, New York, NY 10011 • 1990 • 423 pages • $24.95 cloth

Reviewed by Raymond J. Keating

It is quite rare to discover a book that sheds new light on the workings of the economy. To actually explain the dynamics of any economic system is no easy task. In fact, most professional economists fail miserably at this endeavor. Michael Rothschild, however, has registered some success with *Bionomics*. In a tome-long analogy with biology and the ecosystem, he explores the processes of economic change and growth.

Rothschild argues that capitalism, much like an ecosystem, is a naturally occurring phenomenon. The capitalist system is the "way in which economic activity spontaneously organizes itself." Market-based economics didn't spring forth from the minds of bureaucrats and lawmakers. But socialistic systems, being conceived and guided by bureaucrats, inevitably stagnate, wither, and die. As evidenced by the ongoing changes in Eastern Europe, survival requires that the natural process of capitalism prevail in the end. Rothschild observes, "The immutable, natural forces of economic evolution are too powerful to be stifled permanently."

In both the ecosystem and the economic system, information and innovation are critical. Rothschild declares at the very outset: "In the biologic environment, genetic information, recorded in the DNA molecule, is the basis of all life. In the economic environment, technological information, captured in books, blueprints, scientific journals, databases, and the know-how of millions of individuals, is the ultimate source of all economic life." This theme is carried forward throughout the book.

The incentives and opportunities presented by the capitalist system are impetuses to innovation and entrepreneurship, i.e., to "using new knowledge to create value." Rothschild's emphasis on such creativity is well-placed, and he issues caveats against such incentive-destroying policies as high taxes on income and profits. Innovation and entrepreneurship are, after all, the true driving forces in any economy. As Rothschild explains, "Innovative ideas become the new methods and new equipment that push back the limits of productivity. A firm's efficiency is constrained only by its technology, and its technology is limited only by its members' ability to work together as an intelligent, creative organization."

Both production and innovation have clear parallels in the biological environment. Rothschild explains the analogous production processes: "The entire global economy is comprised of work cells and organizations engaged in the interdependent production and exchange of products. . . . Encoded information is developed or preserved in DNA or blueprints. Copies are shipped to ribosomes or assembly sites. After raw materials are prepared, components are reassembled in new configurations. In a series of finishing steps, these objects are packaged into desirable products. From protein to microprocessor, the essentials of organic and economic production are the same."

As for innovation and change, the analogy continues: "Rapid change happens at the edge, when a group of organisms becomes isolated from its main population. And it happens when a frustrated inventor grows tired of being told no, goes off by himself or with a few associates, and mutates the existing technology into something absolutely astonishing." How many times has one read about such occurrences in high-tech industries for example? Rothschild gives us several examples of the innovative process that at first glance might seem mundane but turn out to be quite intriguing, including the development of the grocery store, the efficiency gains made on egg farms, as well as the death of a stultifying "corpocracy" at Walt Disney.

Bionomics also illustrates why central planners and mathematical economists continually fail to understand and communicate how an economy works. Rothschild points out that "[t]he punctuated equilibrium of unexpected, erratic change across an immense variety of technologies is terribly frustrating for those who want to plan and control the economy. The intrinsic unpredictability of technological evolution makes a mockery of every effort to plan the future. Just as random events reshape the natural environment and cause genetic mutations that set off bursts of speciation, serendipitous discoveries launch new industries." The central planner's efforts are forever destined to be barren of any success due to the natural and inherent dynamism of the economic world.

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The same can be said of efforts made by the mathematical economist. Rothschild observes that the mathematical models of the economy are constrained by "a given quantity of resources, a stable population, and a fixed state of technology." Solutions are only derived if input and output factors remain unrealistically constant. Rothschild aptly describes the current state of the economics profession: "Unable to explain the awesome complexities of real economic life as experienced by workers and business people, where history matters and change is constant but largely unpredictable, Western economists have barricaded themselves inside their obtuse mathematical models."

Until economists throw off the shackles of mathematics and econometrics, as Rothschild makes clear, their ability to describe the workings of an economy will continue to deteriorate. This will become increasingly apparent as economic change and innovation accelerate. If they wish to remain pertinent, economists must eventually recognize that they cannot account for a dynamic, natural economy with static analysis. The economics profession can no longer ignore human action and the processes of innovation.

In closing, Rothschild's thoughts on the dramatic nature of today's economic changes are well worth noting: "Because we lack the benefit of hindsight, we cannot fully appreciate the magnitude of the economic restructuring we are now experiencing. But our descendants will almost certainly judge the 'computer-on-a-chip' to be the most economically significant technical achievement of the previous 500 years. The microprocessor will rank at the very pinnacle of human invention because—like the printing press—it slashed the cost of encoding, copying, and communicating information. And by doing so, it has brought vast areas of previously unattainable knowledge within human grasp and has made possible a staggering array of new products. Today these products are profoundly altering the capabilities of millions of work cells in every niche of the global economy." This was all born of the natural process known as capitalism.

Michael Rothschild's analogies to biology, evolution (which in this reviewer's mind serves economics better than it serves human biology), and the ecosystem are vehicles, but by no means the only vehicles, that transport economic analysis into a more intriguing and realistic realm. In the traditions of the supply-side and Austrian schools, and unlike Keynesians and socialists, *Bionomics* emphasizes the natural human potential to create and innovate. Such a book is required reading for those who wish to gain a better understanding of how the economy works. □

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BUREAUCRACY: WHAT GOVERNMENT AGENCIES DO AND WHY THEY DO IT
by James Q. Wilson

Basic Books, 10 E. 53rd Street, New York, NY 10022 • 1990
433 pages • $24.95 cloth

Reviewed by Lawrence Person

All bureaucracies are not created equal. If nothing else, James Q. Wilson's massive book teaches that the ways of constructing and running a bureaucracy are almost as numerous as bureaucrats themselves. To that end, Wilson goes into a great amount of detail about how such agencies work or, more often, fail to work, and the wealth of concrete examples he has gleaned from other sources make up the most interesting portions of the book.

To show how various bureaucracies function, Wilson divides the book into six large sections (Organizations, Operators, Managers, Executives, Context, and Change) that are subdivided into chapters ("Culture," "Turf," etc.). Thus arranged, Wilson starts at the bottom of the structure (the people working in a bureaucracy, their beliefs, whose interests the agency serves, the circumstances they work under, and so on) and works his way to the top (Congress, the courts, and the President). At each level he deals with the problems such agencies face in pursuing their goals.

One thing Wilson stresses is that, unlike private enterprises, government agencies are not driven by goals but by constraints. Because bureaucracies aren't rewarded with profits when they do something right, avoiding doing something wrong (by "following the rules") becomes far more important than achieving results.

Thus, government agencies often work inefficiently at moving toward what we perceive to be their objective because the constraints of public policy almost invariably give them not one but sev-

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eral statutory objectives to pursue at the same time. We may see an Army procurement official's duty as to obtain the best weapons for our troops, but that same official is also required by law to "support small [and minority-owned] businesses . . . buy American-made products . . . rehabilitate prisoners, provide employment for the handicapped, protect the environment, and maintain 'prevailing' wage rates."

Still another problem most bureaucrats face is that they serve many masters. Congress may desire one course of action, the President another, and the courts may decree still a third. In such an atmosphere, it is no surprise that agency executives must not only try to sort out conflicting orders and goals, but also fight to maintain the funding, power, and autonomy of their agency. As Wilson notes, "the real work of the government executive *is* to curry favor and placate critics."

All these problems and constraints lead to organizations that are manifestly inefficient compared with their private-sector counterparts. Absent any signs from the marketplace that its methods aren't working, a government agency might persist in pursuing an unsuccessful strategy for years. As Wilson notes, "the Ford Motor Company should not have made the Edsel, but if the government had owned Ford it would still be making Edsels."

In such an atmosphere, it isn't surprising that scandal and waste are common. Indeed, given the many constraints on their behavior, it's a wonder that bureaucracies get anything done at all. Yet Wilson cites again and again how effective leadership and strong motivation have made certain agencies (the Forest Service, the Army Corps of Engineers, the FBI) far more effective than others. Still, innovation in this arena is rare, and Wilson observes that, for good or ill, it would be almost impossible to create such elite agencies today given the current set of political restraints.

As for solutions to the bureaucratic morass, Wilson has two: privatize as much of the work as possible, and "deregulate the bureaucracy." The first proposal won't be new to advocates of the free market. Study after study has shown that private firms are far more efficient and cost effective at supplying goods and services than government agencies, and Wilson suggests several areas where privatization might be carried forward.

However, when it comes to those agencies that largely can't be privatized because of their very nature (armies, police forces, and so on), Wilson's suggestion that we deregulate the bureaucracy might be somewhat surprising. Yet his arguments make a great deal of sense. If we look upon these remaining government agencies as a necessary evil, then in most cases the taxpayer would be better off if the agencies ran efficiently, and Wilson makes a strong case for eliminating the many rules that threaten to drown government employees in a sea of paperwork. He provides several general guidelines (eliminate all but essential restraints, judge an organization by its results, and so on) that could help make remaining government agencies more effective.

Bureaucracy, as befits its subject matter, is a deep and detailed book, and one probably not suited for the reader with only a casual interest in the subject. However, those who want to know the details of how bureaucracy actually works will find it informative and rewarding; as a practical manual on making the system work from the inside it is second only to Rector and Sanera's *Steering the Elephant.* □

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THE IDEA BROKERS: THINK TANKS AND THE RISE OF THE NEW POLICY ELITE
by James A. Smith

The Free Press, Front & Brown Streets, Riverside, NJ 08375
1991 • 334 pages • $24.95 cloth

Reviewed by William H. Peterson

William F. Buckley Jr. said he'd rather be governed by the first thousand names in the Boston telephone directory than by the Harvard faculty. Buckley thus echoed the thought of Woodrow Wilson, himself a former professor and president of Princeton University. Said New Jersey Governor Wilson on the campaign trail for the U.S. Presidency in 1912: "What I fear is a government of experts."

Government of, by, and seemingly for experts is what we apparently have today. In spades. In all shades of opinion, and frequently at cross-purposes. Franklin D. Roosevelt had his "Brain Trust," John F. Kennedy his "Best and Brightest," and Ronald Reagan his ideological warriors from the Hoover Institution on the West Coast to the Heritage Foundation on the East Coast.

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Indeed, in this reportorial and rather ideology-free write-up of think tanks, James A. Smith comes up with the first history of expert advisers in American politics, tracing the rise of what has become a semi-autonomous class of influential officials and scholar-analysts.

Take the late Arthur Burns as a case in point: Rutgers and Columbia professor of economics, president of the National Bureau of Economic Research (an early think tank still going strong), president of the American Economic Association, chairman of Eisenhower's Council of Economic Advisers, Nixon's Domestic Policy Adviser, chairman of the Federal Reserve Board, Reagan's ambassador to West Germany, and amid these various Republican assignments, i.e., during the Kennedy, Johnson, and Carter Administrations, a distinguished senior scholar at the Washington-based American Enterprise Institute—a sort of safe haven for dispossessed Republican thinker-officeholders—just as the Washington-based Brookings Institution has been a safe haven for dispossessed Democratic thinker-officeholders such as Alice Rivlin and Charles Schultze. Today, notes author Smith, former program officer at the Twentieth Century Fund and history professor at Smith College, and now an adjunct faculty member of the New School for Social Research, there are more than 1,200 think tanks in the United States, including around 100 in Washington, D.C., alone. In addition, there are literally thousands of university- and college-based research institutes.

These organizations aim to focus much of this brain-power on national, state, and local issues. For instance, the conservative New York-based Manhattan Institute tackles, among other things, local New York City and New York State issues. The conservative Raleigh-based John Locke Foundation mainly tackles North Carolina issues. And the liberal Washington-based Institute for Policy Studies proffers government solutions to national problems such as poverty, pollution, and the homeless, adding to the war of ideas.

When all these think-tank warriors are not teaching university courses or serving on expert commissions, they function as witnesses before Congressional and state legislature committees, drafters of legislation, writers of newspaper columns, commentators on national and local television, ghost-writers for political figures, and political gurus and pontificators in general.

Which brings us back to Wilson's fear of a government of experts. For with all this brain-power, how come America is so mired in a wide range of long-term problems such as pyramiding national debt, rising teenage pregnancy, and skyrocketing crime rates? Think-tank erudition is impressive, but does it add up to wisdom and vision?

For, in the final analysis, aren't premises pivotal? James A. Smith recalls, for example, the erudition of Richard T. Ely, an economist at Johns Hopkins University and a founder of the American Economic Association. In a draft prospectus for the AEA, Dr. Ely wrote circa 1884: "We report the State as an educational and ethical agency whose positive aid is an indispensable condition of human progress." Laissez faire is, he continued, "an inadequate explanation of the relation between the State and its citizens."

Once again, we find, ideas have consequences. □

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—Leonard E. Read

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—John Milton
(1608–1674)

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